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McADOO

WILLIAM GIBBS MCADOO

McADOO

THE MAN AND HIS TIMES
A PANORAMA IN DEMOCRACY

By MARY SYNON

Author of

THE FLEET GOES BY, MY COUNTRY'S PART, ETC.

INDIANAPOLIS
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BOOK ONE

1864 — 1914

McADOO

CHAPTER I

The Secretaryship of the Treasury

HIGH, white and gleaming, Washington rises above the marshes of the Potomac less a city than a symbol, a capital of immortalized political ideals rather than a metropolis of surging human aspirations. Strangely isolated from the struggling evolution which has been, is and always will be the dominant power of the United States, the city of L'Enfant's plan and conception bears out the wisdom of its founders, who set it apart that it might not be swayed by merely local considerations, and who builded better than they knew by removing it from the emotional upheavals of more populous capitals. With its long vistas of immaculate masonry and its classic memorials of spotless alabaster, it gives to the beholder an impression of detachment, of coldness, of association with a past and the vision of a future rather than absorption in the drama of the present; but if it has the chill and aloofness of marble, it has also something of its permanence. Only by understanding of what its monuments symbolize can the nearer past be measured. Only by comparison with the achievements of their predecessors may the work of men still living be related to the history of the nation they served. Without the standard of Washington and Lincoln the place of Woodrow Wilson in the progress of his country can not be fixed; and without remembrance of the traditions of the Treasury

of the United States the labors of William Gibbs McAdoo, Secretary of that portfolio through the six of the most portentous years in the world's drama, may not be estimated.

Of all the buildings of Washington the Treasury stands most impressively adamantine. Squat, almost stolid in its architecture, seeming to guard with defiant solemnity the chaste elegance of the White House from the wide sweep of the avenue it deflects, the structure has somehow assumed in the course of its years an aspect significant of its solid foundations. Grayish, flat-faced, except for the classic stateliness of those entrances which are now mere decorations on its facades, it fronts the world of Washington with the severity of Alexander Hamilton, its spiritual founder, rather than with the bluff democracy of Andrew Jackson, the mason of its material cornerstone.

It is, all things considered, the last place for the staging of revolution, but revolution and counter-revolution have held sway in its lofty rooms. High purposes have triumphed there, and low intrigues smirched the pages. Nobility has held its stage in flashes of splendid courage. Privilege has entrenched itself to be flung out, and to return, and to be flung out again. In no other department of American National Government has the conflict between aristocracy—sometimes masquerading as plutocracy—and democracy been so clearly defined, so bitterly fought. The log of any Secretary of the Treasury comes to be, in the long run, only a statement of how he steered his course through the ever-troubled waters of the relation of the money power of his generation to the popular welfare.

From the days of Alexander Hamilton the Treasury portfolio has been a touchstone of greatness—or of

littleness. In the fastnesses of that stronghold a man could do as much or as little as he had inclination, courage or ability to accomplish. A few men of high stature made the post during their tenure a fortress to the nation. Others went to sleep in it, leaving as testimony of their passing only exceedingly flatulent portraits to gaze down from the walls. It is, by virtue of its constitutional authority, the most vital point in the executive system of the United States, for upon its administration for the people depends the weal or woe of that people. In it a man may render the worst of evil or the greatest of good to more than a hundred million of his countrymen. Most men who have been its incumbents have followed the line of least resistance, and done neither. A long succession of them, relieved only by a few instances of real capacity and genuine patriotism, has sometimes brought the institution to a situation where it not only failed to guard but actually imperiled the welfare of the masses.

The establishment of the Treasury Department was accomplished only after long and solemn debate in the Continental Congress. The Constitution provided that the Secretary of the Treasury should digest and prepare plans for the improvement and management of the revenue and the support of public credit, to decide on forms of keeping accounts, to report budget estimates, to superintend the collection of revenue, and to execute the laws relating to the sale of public lands. On the face of the statement the post seemed to offer no excess of power to its incumbent. In reality, however, it established an intimate relationship between the Secretary of the Treasury and the Congress, independent of the President, by specifically providing that a call for financial information by the legislative body be

made directly to the Treasury Department without going through the President. Gallatin, Secretary of the Treasury under Jefferson, pointed out that this remarkable distinction, which seemed to pervade the laws passed in the early years of Washington's administration, had probably been accomplished to give Hamilton a department independent of every executive control.

In the establishment of a great central bank as the basis of the financial system of the infant republic Hamilton did not go outside the limitations of his aristocratic doctrine of government. According to W. G. Sumner, biographer of Hamilton in the *Makers of America* series, the Bank of the United States, chartered by an act passed February 25, 1791, was in reality a syndicate of holders of the public debt who were incorporated and granted a monopoly of issuing notes, as far as the power of the Federal Government could control that monopoly. The Government never realized any gain from this financial device which Madison fought in Congress and Jefferson and Randolph opposed in the Cabinet. Hamilton's answer to them, one of his ablest state papers, not only convinced Washington of the desirability of the bank's establishment, but also proved the basis for nearly all succeeding arguments concerning the interpretation of the Constitution. It was the blazoning of what Woodrow Wilson in his *History of the American People* has called "the plain fact, which Mr. Hamilton made hardly a pretense of concealing, that the men who had hitherto led the Federalist party feared democracy, and believed a strong government necessary, which should be entrusted to men of the old traditions of power and statesmanship." The bank held its course, therefore, not merely as an institution for the benefit of the few,

but also as a symbol and pledge of the federalist ideal of government.

It was the banking group who had come into power and wealth by relations with this chartered institution and its successor, the Second Bank of the United States, established in 1816, who inspired the forces of reaction when the drift toward democracy placed Andrew Jackson in the White House. In his *Party Battles of the Jackson Period,* C. G. Bowers gives vivid description of the death struggle between "Old Hickory" and Nicholas Biddle, President of the Bank of the United States, popularly known as "The Emperor Nicholas," over the recharter of that institution. "A grave menace to democratic institutions was involved in the concentration of credit in the control of a central bank," McAdoo wrote of the Bank of the United States after his own service as Secretary of the Treasury. "The political power which a vast institution of that character would possess if it existed in the United States today would be quite capable of subverting popular government. It was with the lesson of the Second United States Bank in mind that the framers of the Federal Reserve System decided against the central bank and in favor of the twelve regional banks with their greater capacity for serving the varied needs of the different sections of the United States and with their minimized power for evil through the decentralization of credit control which the regional bank system provided." Jackson won the conflict, but the issues of the financial institution, the tariff and protection, all involved in the battles of his period, had been sown like dragon's teeth. Politically, economically and socially the history of American public life—except for the slavery issue of the Civil War—has revolved

about them; and because of the great influence any Secretary of the Treasury has upon the course of finance and business in the nation as well as in the formulation of theories and the presentation of facts concerning them, his office has been clothed with a power greater even than Hamilton hoped for it.

It was Jackson, however, rather than his Secretaries of the Treasury—he had four of them in eight years, none remembered but Roger B. Taney, and he for another cause—who wielded the real power in the warfare. So, too, did Lincoln hold the fort against the powerful financial interests who were seeking to make the Government's embarrassment their own opportunity. The Gold Room crowd of Wall Street, already dubbed "General Lee's left wing," was trying to force the Federal Government to accept their terms of war financing, and using for their purpose a plan of working both ends against the middle. Salmon P. Chase, Secretary of the Treasury at that time, was genuinely distracted over the situation, which he presented at a Cabinet meeting. Lincoln, after meditative attention, told this story: When he was a young man on the farm there was a pile of stones forming a natural cave just about large enough to admit a man if he stooped down. The cave was open at both ends. Lincoln and another youth were working in the field when a bull charged them. They ran to cover, Lincoln attaining the shelter of a tree, his companion making for the cave. Lincoln saw the other emerge from the cavern, however, instead of staying there, only to run back when the bull went at him. Again he came out, and again he returned to the cave. When he came out for the third time, with the bull waiting for him, Lincoln called to him, "You darned fool, why don't you stay in

there?" only to be answered, "You darned fool, there's a bear inside!"

With his genius for remembering or inventing tales of symbolic aptness he had epitomized the situation of the American public between the manipulating groups of American finance. For long years after his time the condition persisted. Panics came and went, Presidents passed, Secretaries of the Treasury took office and left office, but the growth of a financial power at the expense of the nation continued until there came into the White House and the Treasury two men pledged, not merely by their party platforms but by the circumstances of their lives and the standards of their moral attitudes, to give battle to that power.

Not since the time of Washington and Hamilton had there been the combination of a great President and a great Secretary of the Treasury. Gallatin had in no way measured in outlook or achievement with Jefferson. Thomas Ewing had been a greater man than Tyler, and Thomas Corwin greater than Fillmore, John Sherman a more powerful force than Hayes. Each of them, however, had been held back by their weaker Chief Executives, while on the other hand Chase and Fessenden had failed to fulfill Lincoln's hope of them. Through long tenancy by weak holders the Secretaryship of the Treasury had fallen into a weakness against which Hamilton had guarded it, but its essential power remained imbedded in the Constitution, awaiting the coming of a man who would use it against the very forces for whose benefit the first Secretary had labored. With the tide of social upheaval which split asunder one party, strengthened another, and lifted Woodrow Wilson to the Presidency, William Gibbs McAdoo became Secretary of the Treasury of the United States.

Not because he carried his country through the financial crises of a war period unparalleled in the annals of history; not that he established a financial system which stood the stress of that period; not that he held more and bigger jobs—and with success—than any other man in American executive position; but because he revolutionized the Hamiltonian theory which had kept the Treasury apart from popular consciousness for a hundred years and three decades, because he extended its basis into contact with every citizen of his country and made it the true servant of democracy, is the record of his Secretaryship vital. His incumbency of the office—from March of 1913 to December of 1918—left a scroll of great achievements, but more important than his record of the volume of work accomplished, was his theory of government and his successful practise of that theory. For the first time in the history of democracy the principles of democracy were applied to a nation's financial affairs. For that reason the recountal of the history of McAdoo's Secretaryship of the Treasury is not merely the tale of an individual. It is the story of a manifestation of a struggle old as Cain and Abel, a drama of a principle ancient as the soul of mankind.

CHAPTER II

The Making of a Statesman

BOYHOOD

IF HIS personal history were not symbolic of that courage which is the essential and abiding spirit of American society, the childhood and youth of William Gibbs McAdoo might be dismissed with that quotation from Gray's Elegy with which Abraham Lincoln epitomized his own boyhood:

"The short and simple annals of the poor;"

but, since McAdoo's destiny seems curiously synthetic of his time and nation, a hard struggle against poverty which, remembered in his executive career, was to prove a searchlight upon the problems of the poor, it is essential in the record.

Born near Marietta, Georgia, on the thirty-first of October, 1863, his first definite impression was of the passage of a victorious invading army, and the entire tale of his early years is woven on the woof of a pinching poverty. Long years after he had surmounted that condition, but before his entrance into public life, he said of his youth:

"I was brought up in Georgia, in the path of General Sherman's famous march to the sea. As Henry Grady once remarked, 'General Sherman was a bit careless with fire, and, for this reason, among other things, he has never been a popular man in Georgia.' For myself, however, I feel that I owe General Sherman a debt of gratitude. I believe that character is produced and developed to the highest extent by hardships, suffering and poverty. I have never doubted that whatever of character I have developed has been in a large

measure due to the surroundings and conditions which General Sherman forced upon the people of our section during the great war."

The frame house where McAdoo was born was one which his father, then serving in the Army of the Confederate States, had purchased only a short time before. It stands on the Powder Spring Road, a few miles outside of the town of Marietta, about eighteen miles from Atlanta and near the battle-field of Kennesaw Mountain. At the time of the child's birth, the place was in danger of the approaching Federal Army. A few months afterward, his mother, carrying him in her arms and gathering the other children about her, fled before the oncoming Sherman forces and found refuge in Midway, a suburb of Milledgeville, the old capital of the state.

Not until the time of another great war did McAdoo return to his childhood home in Milledgeville. A widow and her two daughters dwelt within its walls, but in one of its windows hung a service flag of two stars, one of them gold, proclaiming its tribute to the warfare overseas waged by a nation as united in spirit as in constitutional integrity. "Nothing in all my journeying through the country," he said, "touched me as much as the message of that flag in the window. It was the token of healed sectional wounds, of a common cause, of a unified land, and, as I stood at the door where my mother so often stood during the poignant days following the Civil War period, I thanked God that He had given me the chance to do my part in the work those stars typified."

For thirteen years the McAdoos lived in or near Milledgeville. William Gibbs was only a year and a half old when the war ended; but war conditions lasted

in Georgia for many a day, and his persistent memory of blue-coated soldiers straggling through the streets of the little town may be of a time following the passing of "Uncle Billy's boys." It is, however, the center of the picture of a troubled, hard working, but not unhappy childhood.

Its salvation from the misery that is too often the handmaiden of want was due not to outward circumstance but to the remarkable characters of his father, the older William Gibbs, and his mother, Mary Faith McAdoo. Both of them came of "good stock," the former of a family of Virginia-Tennessee pioneers who had won distinction in the War of the Revolution, in the War of 1812, and in the Mexican War where the first William Gibbs held a commission; the latter of the famous Floyd family of Georgia, which had given generals and soldiers to the struggling nation. Both the boy's parents had been married previously to their marriage to each other. They seem to have brought to their union not only a solidity of affection which made their home life peculiarly strong, but also a standard of thought and morality which was unquestionably the determining influence in their son's career. For an understanding of the McAdoo psychology during the six portentous years when he held the greatest fiscal power that any man has ever exercised in the history of the world it is necessary to reconstruct something of the family background, not for its hereditary significance as much as for the traditional inspiration it gave to a sensitive eager child, apparently debarred by the fortunes of a civil war from fulfillment of his own part in the carrying on of the national heritage.

The marriage of a McAdoo to a Floyd was a wedding of pioneer and cavalier. It is fairly easy to trace the

two strains in William Gibbs McAdoo. The breadth of vision, the westward outlook, the rugged humor evident in McAdoo and so often suggestive of Lincoln, whose forebears were of the same race and experience, the sublimation of the personal to the general welfare are characteristic of the Scotch-Irish group who broke down the barriers of the wilderness, while the high daring of action, the aptitude for public service, and the gallantry of courage which are not less notable in him, probably owe their existence to the headier strain which ran through the Floyd blood.

The McAdoos, certainly Gaelic and probably Highland Scotch, came in the seventeenth century to Virginia, but moved southward in the early eighteenth century to North Carolina. Thereafter the urge of pioneering drew them westward to Eastern Tennessee where they settled in the section known as Piedmont. The McAdoo family Bible sets down John McAdoo, born in Virginia in 1757, and dying near Clinton, Tennessee, in 1830. They were born trail-blazers and wilderness fighters, tall, thin, blue-eyed men with a racial flair for struggle against natural forces. They fought in the War of the Revolution at King's Mountain and Guilford Court House. National independence attained, they kept up their own never-ceasing fight for national development. They served under Jackson in the War of 1812. They fought sporadic Indian warfare, and constant battles for homesteading. Life was hard to them, but it was also inspiriting, and they deeded to the elder William Gibbs McAdoo, born in 1820, grandson of the John who had migrated from Virginia, the heritage of their visioning.

This man, McAdoo's father, and unquestionably one of the most potent influences upon his son's life, epit-

omized in many aspects the epic of American national existence. His boyhood was spent upon the Island Ford Farm which had been cut out of the wilderness by his family's efforts. His father and mother, "Uncle John" and "Aunt Polly" to the countryside, linked him to a time of his country's infancy. His mother's family, the Gibbses, going into exile from England with the Stuarts, had found their way through Holland to the American colonies, and paralleled the course of the McAdoos to the Tennessee mountains. The boy's home, built at a crossing of river and highroad, was meeting-place for the community. He grew up in an atmosphere of hard work, of occasional neighborly recreations, of dances, and corn-huskings, and political meetings, but, most of all, an atmosphere of ambition. It was a day of adventure, of Jackson and Houston flaming to zenith in his own state, of tense drama in political life with every citizen a partisan spectator if not a participant, of the opening of the West, of luring opportunities, of widening horizons. To these influences the boy was plastic, and, had it not been for a certain scholarly, philosophic bent which turned him toward the law, he might have joined John McAdoo in that association with Houston which held in Damon and Pythias fashion through the thrilling years of the latter's storm-swept life. As it was, he set his goal toward the attainment of an education, more difficult to secure in his time than in later days.

In the early 'forties he went to the East Tennessee University, after having taught school for a few years at both Union and Franklin Academies. He was the principal of the former from 1838 to 1840, and of the latter the following years, returning to Union for two years. At the university he specialized in Latin and

Greek while he cooked his own meals, usually from food sent him from home, and wore homespun. He must have gleaned a wide knowledge in his three years of college, for he was an astronomer, a geologist, a botanist, a poet and a lover of literature. Besides this, he dipped into public affairs with the zest of his time, and on the day before his graduation was elected to the Legislature of the State of Tennessee as a Henry Clay Whig.

Through the time of his service in the Tennessee Legislature he read law with Judge Edmund Dillahunty of Columbia, but was not practising when the Mexican War broke out. He was elected by the regiment he helped to raise as First Lieutenant of Volunteers, and he set out with his company on a flatboat, which was floated down the Tennessee River to a junction with the Ohio, down the Ohio to a junction with the Mississippi, and down the Mississippi to New Orleans. There the regiment embarked for Vera Cruz. William Gibbs McAdoo, the elder, was at Vera Cruz and Cerro Gordo with General Winfield Scott, fighting in numerous engagements and entering the City of Mexico with the conquering hero. The bare record does not even suggest the hardships of that campaign when he marched his regiment—he took command at John Kirkpatrick's death—five hundred miles from Victoria, the capital of Tamaulipas, to Tampico.

Returning to Tennessee, he took up the practise of law in Knoxville where he was twice elected Attorney-General for the Knoxville Circuit. Colonel Brownlow, son of the famous Pastor Brownlow, testifies that he was the ablest prosecutor in Tennessee, with a genius for criminal law, and a fearlessness eminent even in a group of brave men. He married during this time, and

lived in the house where Judge Swan had made the first speech naming Andrew Jackson for the Presidency. After the death of his first wife he visited Marietta, Georgia, then a popular summer resort town, and met Mrs. Mary Faith Floyd McDonald of St. Mary's, a widow with one child. They were married on the twenty-third of September, 1857, and went to live in Knoxville, Tennessee.

More prominently though not more vitally than the McAdoos the Floyds had been associated with the history of the nation. Coming from Wales—the name had been Ffloyd—they took ground in Accomac County, Virginia, being on record there in 1675, but going southward later. Charles Floyd, McAdoo's great-great-grandfather, was a member of the St. Helena Guards, that volunteer company of South Carolinians who in the War of the Revolution wore a silver crescent on their hats with the motto, "Liberty or Death." His son, John Floyd, was a soldier in the Indian Wars in Georgia and Alabama, being the General in command of the Georgia troops at the time that Jackson led the Tennessee forces, and cooperating with him against the hostile Creeks around 1814, fighting in the battles of Chalibba, Tallahassee and Autosee. In the War of 1812 Major-General Floyd held the defense of Savannah while Jackson held New Orleans. Always the staunch and close friend of Old Hickory, he was one of the Presidential electors for Jackson in his second election, although he had no particular liking for politics. He had served one term in Congress during John Quincy Adams' administration, but had refused to run for a second term because he didn't like political life. Retiring to the river plantation in Camden County where he had built a fine southern mansion, he lived until 1839.

John Floyd's son, Charles Rinaldo, afterward another General Floyd, and father of McAdoo's mother, was one of the gentlemen-at-arms of his adventurous generation. When he was fourteen he was taking part in Indian battles under his father's command. He went to West Point, but because of a controversy with the Commandant, quit the institution, and enlisted in the United States Marines. Charles Floyd commanded the Company of Marines which was Lafayette's bodyguard at the time when that friend of America landed in New York. The circumstance may have inspired young Floyd with the wish to see Europe. A military career was his passion and he visited the most famous battle-fields of Europe not many years after Napoleon's defeat at Waterloo, made a thorough study of the strategy and results of those epoch-making battles and was subsequently made the General of the Georgia State forces, succeeding his father, General John Floyd.

On his return to the United States he plunged into military affairs, taking up his father's work. The Indians of Southern Georgia were wont to make their raids upon settlers from the great Okefinokee Swamp, that area which covers an entire county adjacent to the Florida line. In the fastnesses of the swamp they felt secure from reprisals. General Floyd, however, led his troops through the dense jungle and cleared out the redskins. This feat brought him into great prominence and he became the fast friend of General Scott, who designated him to remove the Cherokee Indians from Georgia to the West when the Government decided to place them upon reservations. It was a task requiring skill, patience, foresight and courage. His performance of it was accomplished with such success that he

would undoubtedly have been one of Scott's chief aides in the Mexican War had he not died in 1845.

With this richness of family achievement for background the McAdoos dwelt during William Gibbs' childhood in an immediate atmosphere of biting poverty. His father, supposedly incapacitated from military service by physical disabilities incurred in the Mexican War and after, had gone through the battles of Peach Tree Creek, Atlanta and Macon. At the end of the Civil War he had not money enough to take his wife and children back to Tennessee. Georgia was the most devastated of all the states of the Confederacy. Even to-day it bears the scars of that conflict, and it must have been infinitely worse in William Gibbs McAdoo's boyhood. The knowledge of what waste land, scarce money and high interest can mean to the everyday life of a people found its way by personal suffering into the marrow of the younger McAdoo's bones.

He was the fourth child and the second son of seven children, of whom three were boys. They made their home at first after moving from the house near Marietta in a structure which had once been an hotel. Big, rambling, rickety, it served fairly well in summer, but in winter, when the temperature of that part of Georgia sometimes went down to 15 degrees Fahrenheit, and there was no adequate fuel, the children—illy clad, inadequately covered—shivered in wretchedness. It was in its want a replica of thousands of homes in the section, but it was lighted, not only by the pine torches by which the ten of the household, father, mother, the seven McAdoo children, and their half-sister, did their studying and reading, but also by the light of ambitious effort. Every day the father strove to rebuild his shattered career, and while she

kept house and made the clothes for all of them, Mary Faith McAdoo wrote two novels!

The children, organized by their mother, went in teams for helping her in the household tasks. They washed dishes, chopped wood, and, when they finally secured a cow, milked her. They ran errands, did chores, went to school. Once in a speech delivered at the opening of the Hudson Tunnels, McAdoo said that while Haskins was originating the plan for revolutionizing the transportation of New York he himself was a boy in Georgia, wondering how he could get enough to eat in a devastated country. Certain it is that the sharp privations of that time gave to him the outlook which was the foundation of many of the most important measures he fostered during his public life. "A man must have lived through privation to have sympathy with the problems of poverty," he told a group of men who were opposing his plans for Governmental farm loans. His recollections of his childhood, poignant and pensive, must have etched their way into his brain to give impression to all pictures of poverty, even in the abstract. Intensive study of the man's work shows how consideration for the problem of poverty and fiery sympathy for its victims has been ingrained into his attitude toward his national service.

The elder McAdoo found an office in the disused state-house of Milledgeville, and the family moved into a smaller house on the square opposite. The struggle did not lessen, although in reality the first step up the ladder had been taken. Throughout it all the elder McAdoos preserved their love of goodness and beauty, training their children to find both in humble surroundings. The practise of law in Milledgeville was not onerous, and the father used much of his spare time—

it seems unfair to term it leisure—in the instruction of his children, making learning a game with them. He would call William "Sharpwit," and Ross "Little Pink," and the letters which he, signing himself "Doctor Oldrat," wrote the two of them were greater treasures than the diary of Charles Floyd, with its tales of courts and kings. He led them afield, teaching them flowers and stars and rocks, and inculcating in them a love of trees that is probably the root of McAdoo's passionate interest in the conservation of national forests, giving him the information which permits him to talk intelligently with the forest rangers of the West on the scientific aspects of their work.

His father's belief that "in a democracy every man should learn to think and speak on his feet" gave William some bad hours, for he used to stand the boy in a corner of his law office while he taught him declamation and argument, ordering him to memorize poems —one of them being *Casabianca*—and present them for his criticism. It was acute agony to his son, and he would rush away at the moment of release, joining in games with boys from whom he sought to hide the guilt of his oratory.

The games, like the way of life they lightened, were in themselves hard. The boys waged battles on the outskirts of the town, pelting each other with rocks, and waging mimic warfare. Across the road from the house in Midway yellow-jackets had made nests near the community meeting-house. One of the games of the Milledgeville boys was the pelting of these nests. When the yellow-jackets came at them, they ran to cover. On one occasion William was the innocent victim of punishment. His father bade him meet him at the general store, then forgot about him. The boy

waited for some time and then thought of going home, but he remembered the story of Casabianca and decided that it was his duty to obey orders and stay there until his father came. Finally the store was closed and night came on. Still the boy waited. About nine o'clock a searching party, headed by his father, discovered him sitting on the steps of the store. Without waiting to find out why the boy had remained at his post, he was immediately upbraided for not having come home, thereby causing so much anxiety. The boy was too abashed to state the real reason for his action. Possibly out of the reaction from the worry, the father punished the boy "corporally," as McAdoo joyfully relates, although corporal punishment was taboo in the family since Mrs. McAdoo had written a brochure against it.

Milledgeville at that time had a population of only three thousand people and there were few who could afford the luxury of a daily paper. William, seeking a way to comparative wealth, evolved the idea of buying daily the *Augusta Chronicle* published in the near-by city of Augusta, and selling it. He thus became the first newsboy in Milledgeville when he was not quite twelve years of age. Later he was to tell with amused pride of the large business he established at that time, namely five clients each day who bought the papers at five cents each, leaving him a profit of two cents each or ten cents per day.

Baseball in 1874 was the rage, but the boys had to make their own balls which were composed of rags with a stone in the center and a few discarded rubber bands which they were able to find. These improvised balls were very poor. One day, William and four of his companions found by chance a catalogue of Peck and

Snyder, the great sporting goods house in Nassau Street, New York City, at that time. They eagerly looked through its pages and discovered that six baseballs for boys could be bought for one dollar, but one dollar was as big and as unprocurable as Mt. Washington. They talked over plans. Finally William proposed that they write a letter to Commodore Vanderbilt in New York and ask him to lend them one dollar. In those days, Commodore Vanderbilt was regarded as the embodiment of riches and the boys thought that he might be willing to lend—not give—them a dollar for this noble purpose. William was the only one who could write so he indited a letter to the Commodore asking for the loan of one dollar which he and his four associates promised "on their word of honor" to pay back some day, telling the Commodore who they were and that they wanted the dollar to buy one-half dozen baseballs from Peck and Snyder in New York. After many tribulations they succeeded in getting a three-cent stamp for the letter. They marched in a body to the post-office and deposited it prayerfully in the mails. For weeks they haunted the post-office in Milledgeville, awaiting the reply which never came. Probably the Commodore's secretary had cast the boys' letter into the waste-basket like many others with which he, like all wealthy men, was doubtless besieged. Forty-four years thereafter (1918) McAdoo found himself Director-General of all the railroads of the United States and making an inspection trip over the New York Central Railroad with high officials of the Railroad Administration. Suddenly it occurred to him that Commodore Vanderbilt would not lend him one dollar in 1874 to buy one-half dozen baseballs and now he, McAdoo, was in possession of all the railroads formerly

owned by Commodore Vanderbilt. It was a startling change in fortunes and an extraordinary story of contrasts.

In that time, too, he learned his admiration of Abraham Lincoln which is so amazing in the face of the circumstances of his environment. Possibly the racial kinship between the McAdoo and Lincoln stock formed the basis of the devotion, but it must be recalled that here was a boy, living in a land swept bare by the passing of a northern army, hemmed in by agitated social and political conditions which his section almost unanimously ascribed to Lincoln's policy, and yet building up a hero-worship for the martyred President. He himself has explained the devotion as the following of an instinct. He was from his earliest recollection drawn to thought of Lincoln, the man. Even in his boyhood, among people left penniless by the conflict which abolished slavery, he saw the wrong of slavery, and came into realization that the dead statesman had sought to do justice to the entire American nation. It may be that he found analogy between the circumstances of his own boyhood and that of Lincoln. Coming of the same stock, which made ladders of its barriers, he was struggling upward through an oppressive environment.

The tales with which the elder McAdoos entertained and educated their children through the long winter evenings in Milledgeville were tow to the flame of William's spirit. Stories of the Floyd splendor in the now devastated mansion to the eastward, traditions of the Gibbses who had lifted their glasses to Bonnie Prince Charlie, recountals of the beauties of the Mexico his father had seen made color of the tapestry of his imaginings; but, since it was part of his constitution

to see no dream that he did not seek to make true to the best of his power, it was the drama of the past in its relation to the future which took possession of his thoughts. "Ever since I can remember I wanted to go West," he said when he chose California for his home. Tales of the pioneering McAdoos, hewers of wood and drawers of water, the men of King's Mountain and of Piedmont, soldiers of Jackson and comrades of Houston, lifted him from a despair that would have engulfed him had he seen only the surface of that time of his boyhood; for he possessed his mother's intense compassion for suffering, and about him he saw too much to evoke it.

Through the fourteen years of his life in Georgia that state was passing through the most trying time that any commonwealth has endured since the establishment of the Republic. A social and economic system based on human bondage had been swept away. No other means of livelihood for former slave or former slave-owner had superseded it. Politically and commercially the section was bankrupt. Nothing but a smoldering fire of moral integrity in the breasts of a minority of its people saved it from spiritual disintegration. The condition of the negroes was more pitiable than that of their former masters. Their poverty was pathetic, their helplessness appalling. Out of his mother's solicitude for them, possibly the result of her own family tradition of responsibility for their slaves, the boy pondered their problem. He saw them given a political equality which could mean little in the face of the nullification of all economic opportunity. If a flatboat voyage down the Mississippi bred in Lincoln the dream of the freedom of the negro, the every-day life on the streets of a little Georgia town developed

in William Gibbs McAdoo the ideal which he, as Director-General of Railroads, expressed in General Order 27, giving equal pay to negroes for equal work performed by them.

Years before he had given women equal pay in the Hudson Tunnels. Order Number 27 gave the women employed on the railroads of the United States equal pay with men for the same work performed. The women in the Georgia of the early 'seventies bent under their burdens, and Mary Faith McAdoo, with her gift of expression, voiced to her family protest against the many injustices done her less fortunate sisters. It was all part of the picture which the boy dwelt in through his years of keenest susceptibility to impression. Others ignored it or were submerged by it, but, burned in his brain, it remained until he could use his power toward the betterment of its persisting conditions.

Even his later interest in transportation had been awakened before his family's westward trek. In 1876, the year before he went back with his family to Tennessee, the elder McAdoo was named in the course of his professional service a delegate to the Blue Ridge Railroad Convention at Knoxville. The convention had been called for the purpose of interesting the people of Knoxville in the extension of the road, which had been completed only thirty miles west from Andersonville, South Carolina, at the outbreak of the war in 1861. "Though one generation failed to realize its hopes," the Committee on Resolutions stated, "it has left substantial beginnings which the present one may easily push forward to successful conclusions." His father, as vice-president of the session, must have brought home some of its optimistic buoyancy for the opening

of a transportation system which would aid his section, and it is equally certain that a sanguine boy snatched at the hope of opening opportunity.

The remark, sometimes credited to the Jesuits, that the man is made when the boy is fourteen is not without deep wisdom. At fourteen William Gibbs McAdoo had imbibed the feeling of personal association with his nation's history, the ability to see his way and take it, the sympathy for the downtrodden, the hero-worship of Lincoln, the zest of adventure and the sense of responsibility which marked his public life. When the family left Georgia his boyhood was really done. The man was made.

YOUTH

The clouds which had overhung the McAdoos began to lighten when his father was offered the adjunct professorship of English and history in his alma mater, the University of Tennessee. The position paid fifteen hundred dollars a year, little enough for the support of ten people and the education of eight children, but vastly better than the uncertain fees of a Milledgeville law practise or the scanty emoluments of the judgeship which he had held. He accepted it gratefully because it promised the chance to give his children better schooling than Milledgeville afforded, and in 1877 the family moved to Knoxville. Two years later, after a course in the public school, William entered the university.

His two years in college, although not as overlaid with hardships as his father's had been, were fraught with financial worries. He was only eighteen, but he reasoned that his education was costing his father more than the latter could afford. With great reluctance, as

he had determined to become a lawyer and knew the value of technical education, he left the university to take the position of Deputy Clerk of the United States Circuit Court for the southern division of the Eastern District of Tennessee at Chattanooga.

The place, coming to him, a minor, unsolicited, held open an unusual opportunity for the study of law in connection with the actual duties of the job, and brought him in close touch with the leading lawyers of the section. Some of them were men who had been contemporaries of his father in the latter's law practise of earlier years. With Judge William Henry DeWitt, a preceptor of fine legal talent and real nobility of character, he took up the study of law, "reading" in the old-fashioned way, and correlating his study with his observation of federal court practise. He was admitted to the bar in 1885, a few months after he became twenty-one years of age.

His court work and legal associations developed in young McAdoo an active interest in politics. Democratic, of course, both by temperament and environment, he naturally subscribed to the tenets of his party, but, even in a youthful enthusiasm, never swallowed them hook, line and sinker. Grover Cleveland, holding the Chief Executive's chair after twenty-four years of Republican control of the Presidency, and idolized by his party for his triumph as well as his achievements in statecraft, although greatly admired by young McAdoo, never seems to have inspired the same fiery worship which the youth gave to Lincoln. In local affairs he came into notice for his ability, which, strangely enough, took him out of politics into the paralleling course of public utilities.

His gift of inspiring the confidence of older men

made him for a short time the local attorney of the Central Railroad & Banking Company of Georgia at Chattanooga, Tennessee. This gave him his first railroad experience. With youth's feeling that the world was his oyster, reinforced by that self-confidence which comes with real power, he married Sarah Hazlehurst Fleming, and set up his lares and penates. His wife, a girl of insight and charm, seconded his ambitions so ably that, guided by her encouragement, he reached out toward new fields.

The Knoxville Street Railroad Company was one of the enterprises which first attracted his attention. Young McAdoo, studying it from the standpoint of electrical development, then just beginning for street railways, conceived the idea that he wanted to own it. With the very little money he was able to save, with the credit he had already established through his reputation for honesty and enterprise, and with high hopes of ultimate success in the venture, he bought the dying system, planning to change its operating power from horses to electricity. He was, however, ahead of the time and the place. He lost his own money, but he held his reputation for integrity at the cost of infinite personal sacrifice, and shifted his hope to a wider horizon. Penniless, except for the amount needed for transportation and immediate expenses, he transferred himself and his family to New York in 1892.

NEW YORK AND THE HUDSON TUNNELS

Some one has called New York the City of the Single. In 1892 the struggle for place was quite as strenuous as at any later time. It was a city where the sky-line was rising every day, where great fortunes were in the making, where great opportunities awaited

the daring, but it was as locked against the stranger as the vaults of the Incas. Except for the lure of its reputation it should not have seemed the place to attract an impoverished young lawyer with a growing family, especially when his heart turned toward the wider spaces of the West. For the same reason his father had gone back to Knoxville, however, the eventual education of his children, and out of that high courage which operated most efficiently in him in the most adverse circumstances McAdoo established himself in the metropolis.

He secured an office, a small back room in a building then fronting on Wall Street. He knew the exact mileage from lower Broadway to Eighty-seventh Street, where he made his home, for day after day he walked that distance up-town to save car-fare. Often he went without a midday meal, but all through that time of want and worry he was building a group of friendships which were destined to bulwark his life. Men met and trusted him, for there was in him a rugged dependability which shone through a surface charm of manner as granite gleams under rock flowers. Men came to recognize his keenness of mind, his breadth of vision, his integrity of purpose, and, quite naturally, since law requires trustworthiness of human relationships, his law practise slowly grew. His very responsibilities, instead of being a handicap, were benefits.

Among his friendships was that with the Honorable William McAdoo, former Congressman from New Jersey and an assistant Secretary of the Navy during the second administration of Grover Cleveland. Attracted by the similarity of their names—there is no relationship between the two men—they came together to find that they had interests and ideas in common which

resulted in the formation of their law partnership in 1898. William McAdoo, later chief city magistrate in New York City, was in close touch with the main currents of political life in Washington and New York, and his shrewd and broadly-based estimates of men and events had their value to his colleague in the four years of their partnership. The law in itself, however, did not satisfy the man from Tennessee. It was in its contacts with creative work that it made appeal to him. New York, with its thrill of greatness, its immensity of international outlook, its tremendous human power, was calling to the power within himself until he ached to use his brain for a great constructive task as the mountaineering McAdoos had used their brawn for the clearing of the wilderness. It was the fusing of all the elements in his life, the law practise, the erstwhile sad experience of the Knoxville street railways, the desire for service, the yearning for expression in building a project of permanent value, which brought him to the most critical point of his personal fortunes, the construction of the Hudson Tunnels.

He had come to the age of thirty-eight with a smoldering ideal, lighted in his want-scarred childhood, but almost hidden under the necessity for earning a living for himself, his wife and his children. With his heritage of his mother's philosophical temperament he planned to work out in words the plan which had been formulating in his heart and brain through the years of struggle, a plan devised for nothing less than the abolition of the world's poverty. A New York lawyer, climbing the ladder to a well-defined though moderate success, would be almost the last man one would believe engrossed in such a project, but for two years William Gibbs McAdoo worked night after night on the plan of

a book dealing with the most comprehensive and persistent subject in the universe. He wrote three chapters. Like Raphael's *Sonnets*, they are lost; and, like Browning, we may feel that we would rather read them than the record of the work he gave the world, for they are unquestionably the keynote of his public life. He was destined, however, to work out his creed in action, and the building of the Hudson Tunnel was the first chapter of the document.

For more than twenty years men had been striving to tunnel the Hudson. New York, cut off from the mainland, had already outgrown its transportation facilities. The human problem of the transportation of hundreds of thousands of people every day into and out of Manhattan came hopelessly against the engineering problem of thrusting tubes under the river and the financial problem of getting money for the trial. In 1878 DeWitt Clinton Haskins had started the building of a tunnel which had to be abandoned after about 3,500 feet had been built from the Jersey side toward New York. Financially and physically, this old tunnel had a tragic history. A serious disaster marked its beginning. In 1882 the company failed for lack of money. Nine years afterward work was resumed, but the next year, 1892, the new company also failed. At this time the tunnel was approaching a point in the river where the water was deepest, and where a rock reef stood athwart its path, rising at no place above the diameter of the tunnel. To overcome this difficulty it would be necessary to construct the bottom of the tunnel through the rock reef and the top of it through the silt under the Hudson River at a point where the water was sixty-five feet deep, and where the amount of cover between the top of the tunnel and the bottom of the

river was only about thirteen feet in thickness. The blasting of the rock in the bottom, with the use of compressed air in the tunnel, agitated the silt overhead at all times, causing grave and constant danger of a "cave-in" of the silt and the flooding of the tube. That was where the Haskins project had come to grief. Until McAdoo realized its availability to meet the need of the people of the city for better transportation it had remained for nearly ten years a worthless hole. Failure after failure to work out a plan for its completion had made the very idea of tunneling the Hudson seem futile, but McAdoo, as undaunted by the defeat of other men in the engineering project as he had been by his own defeat in one transportation enterprise, evolved a plan of his own for the crossing.

For its evolution he gave up the writing of the book on poverty, and devoted himself to the study of engineering detail. K. B. Conger, his faithful friend and associate with him in the tunnel task, bears witness that McAdoo was a great practical though not a technical engineer. Jimmie Martin, one of his concrete foremen, and worker with nearly all the great engineers of his day, brought out of his work under McAdoo the belief that "McAdoo can do it," no matter what engineering task was involved. McAdoo brought to his assistance two great practical engineers, Charles M. Jacobs and J. Vipond Davies. When the actual work began he frequently went into the tunnels under the river, subjecting himself to high air pressure and sharing dangers with the men, underrating their nearness no less than they did. His precautions prevented the loss of a single life in the building of the bore. Before the actual work started, however, he had to win franchise and money for it; and in the finding he came

into hand-to-hand conflict with the traction barons of Manhattan, then almost at the zenith of their power.

In 1902, through his ability to interest a few men in the undertaking, notable among them Walter G. Oakman, whose public spirit and financial influence were invaluable, he organized the New York and Jersey Railroad Company which acquired the old tunnel. The new company's plan provided for the completion of a single tunnel to a terminal at Christopher, Greenwich, West Tenth and Hudson Streets in New York, and the construction of a double track in the single tube, with the operation of narrow-gage cars of special design to fit the single tunnel.

It was proposed to connect with the surface railroad lines in New Jersey, either at Hoboken or at a point in Jersey City. The company set out with four million dollars, available only for this plan. Not until after the work was resumed did the imperative need of a parallel tunnel become evident. This involved the raising of two million five hundred thousand dollars more. "There was no way to get it at the time," McAdoo confessed years later, "but we took the chance and began work on the second tunnel."

The panic of 1903 struck New York. The tunnel company had been forced to undertake the condemnation of a right-of-way beneath the Delaware, Lackawanna & Western's property in Hoboken and Jersey City, and at once came into grips with that powerful company. It was also necessary to extend the line from Christopher and Greenwich Streets to Sixth Avenue, and under Sixth Avenue to Thirty-third Street because the tunnel could never command its share of traffic unless it could deliver its users to the shopping and hotel district of New York. The Lackawanna had

bought the Hoboken ferries and had decided to open a new ferry line between Hoboken and the foot of Twenty-third Street in New York, and the Hudson tunnel would be at a fearful disadvantage if its New York Terminus were kept at the original location. The application to the Rapid Transit Commission for the Sixth Avenue extension provoked the opposition of the Metropolitan Street Railway Company and McAdoo found himself fighting that corporation, as well as the railroad in Jersey.

For nearly a year the struggle waged, and no more bitter battle has ever held the public utilities stage. The tunnel company was not financially strong. It had incurred the hostility of the most powerful interests in the country. The construction of the tube was considered by many able engineers a physical impossibility. Twice the river broke through into the tunnels, and only the daring of McAdoo and the genius of the chief engineer, Charles M. Jacobs, and his assistant, J. Vipond Davies, averted loss of life and property. On March 11, 1904, the first tunnel was completed. On the twenty-fifth of April in the same year the Rapid Transit Board denied the application of the tunnel company for the Sixth Avenue Extension. For eight months McAdoo fought against the decision and the attempt of the street railway corporation to prevent his success. The press of New York was generally favorable to the new tunnel extension, but Brooklyn opposed it, and there were Brooklyn representatives holding a balance on the board. The future of the project looked dark to every one but the man at the helm, who was so confident of his ultimate success that he projected the larger scheme of the down-town tunnels at Cortland Street, connecting with the up-town

tunnels on the Jersey side by an underground railway which would give to the Pennsylvania, the Erie, and even the opposing Lackawanna, as well as to all trolley lines terminating on the water-front, an up-town and down-town delivery in New York.

On December 22, 1904, the Rapid Transit Board called a public hearing for consideration of the tunnel's petition for the use of Sixth Avenue. The counsel for the Metropolitan Railway presented arguments designed to show that a Ninth Street line would be more beneficial to the public than the Sixth Avenue line, a course seemingly planned to divide the vote of the board. McAdoo led them onward to unequivocal commitment to the former plan, then, rising to make the concluding argument, launched without intimation to any one into the plea that if one line would be beneficial to the public, two would be more so, and offering to build both extensions. He had cut the ground from beneath the feet of the opposing interest, and the board voted in favor of the extension.

His success opened to him doors that had been sealed. In January, 1905, the banking house of Harvey Fisk & Sons became interested in the project. The original plan involved an expenditure of five million dollars. The growth of the enterprise and its necessary ramifications ran up to over sixty million dollars, all of which had to be raised through private investment and solely upon faith in the enterprise. Pliny Fisk and his firm undertook the gigantic task of financing, carried it through the panic of 1907, and backed McAdoo and the enterprise until it was successfully completed in 1909.

The important phase of the tunnels to McAdoo in view of his later public life was that the fight which he waged against the traction barons of New York

developed in him the quality of public leadership. Set against the financial giants of the United States, he fought with the certainty that he was struggling not so much for himself and the group he had interested in the enterprise as for the millions of people who would find their ways of life bettered by the project. He had seen that the city was growing amazingly toward the point where it would need all transportation facilities and where the lack of them would seriously hamper its workers. Years before its financiers he visioned New York's greatness and felt its needs. He flung into the contest not only his legal ability but the deep earnestness of his submerged ideal. He was writing another chapter in the work that was to ameliorate the conditions of poverty, but this was a chapter in achievement, not in theory.

Out of the tunnels, but indirectly, he made his entrance into New York political life. In 1908 the Governor of New York, Charles Evans Hughes, refused to sign a bill passed by the New York legislature to equalize the pay of men and women school-teachers performing the same service. The Interborough Teachers' Association began a series of battles to secure the passage of the measure. McAdoo, working hard as President of the Hudson Tunnels, would have seemed to hold no point of contact with the warfare, but an incident in the management of the tunnels focused the attention of the campaigners upon him.

At the request of the late E. T. Munger, general superintendent of the properties, McAdoo had agreed to employ women as ticket-sellers in the subway, an innovation in service urged by the former because of his idea that women were better fitted temperamentally than men to this kind of work. "Besides," Munger

urged, "we can secure their services at a very much lower rate than those of men."

"We'll employ the women," McAdoo said, "but we must pay them what we would pay the men for the same work."

"Why should you pay more for your labor than is necessary," Munger demanded, "when you want the road run with economy?"

"I want the road run with economy," McAdoo told him, "but not at the expense of justice."

The women went to work on an equal-pay-for-equal-work basis, and worked so well that Munger himself made the story public. The Interborough Teachers' Association sent a delegation to McAdoo, asking him for aid in their fight. The sense of justice which had caused him to make the decision in his own bailiwick enlisted him in the women's cause, and he entered their campaign, which terminated with success. It drew him, as it progressed, deeper and deeper indirectly into New York state politics, and it was in its course that he, seeing the disadvantage from which women bread-winners suffered from their lack of voting power, changed passivity of belief in woman suffrage into activity. The winning of the equal wage war left him, without conscious intention on his part, a powerful political factor, although he was as yet no participant in politics.

The capacity for public service latent in him, however, was already making itself apparent. When the Hudson Tunnels were opened in February, 1908, they were heralded as one of the world's greatest engineering feats, but their creator took his triumph from another aspect, asserting that the more important accomplishment of the work had been the practical,

working demonstration that it was entirely possible for an individual or group of individuals to do business with the public on the basis of the Golden Rule. With the formal opening of the tunnel system McAdoo voiced his creed:

"We believe in 'The Public be Pleased' policy as opposed to 'The Public be Damned' policy; we believe that railroad best which serves the public best; that decent treatment of the public evokes decent treatment from the public; that recognition by the corporation of the just rights of the people results in recognition by the people of the just rights of the corporation! A square deal for the people and a square deal for the corporation. The latter is as essential as the former, and they are not incompatible."

The pronouncement, a remarkable one for the president of a great railway corporation and the more remarkable in that it was an actual statement of real policy and no mere demagogic waving of words, was far more revolutionary than appears from setting it down a decade and a half later. That it was not a bid for public favor is evidenced by the fact that McAdoo amplified the theme in an address before the Graduate School of Business Administration of Harvard University in April, 1910, and that he practised his preaching consistently during the years of his presidency of the tunnels.

In view of his later use of his power as Secretary of the Treasury of the United States and Director-General of Railroads the Harvard lecture is a searchlight upon the man's convictions and principles. Delivered before a strictly academic audience by a man not in public life and with no prospect of ever holding public office, *The Relations between Public Service Corporations and*

the Public can by no stretch of the imagination be construed as policy-inspired bait. It was unmistakably a clear statement of a personal opinion. In it McAdoo asserted that no corporation is "soulless," since the soul of every corporation is the soul of its dominant individual, and that the management of the corporation reflects the prevailing soul almost as infallibly "as a looking-glass reflects an object set before it." The theory of the lack of individual responsibility in corporations was, he held, a mischievous error, and one that should be rooted out by a closer relationship of understanding between the serving corporation and the public, a policy used by the tunnels with success even during times of adverse circumstance.

The policy involved no softness in management. The tunnels were from their inception a hard proposition, in engineering, in financing, in management. McAdoo was the responsible steward of every invested dollar, and of every invested hope. He had to lead and construct public opinion to the subway system of transportation. He had to convince New York of his good faith. He had to satisfy customer and stockholder. To do this he had to become the actual "boss" of the job. From the time when he stood in water in the half-finished bore, side by side with his men, to the time when he had to prove, in 1911, to the people of New York that an up-town fare raise was a necessity, he was the one man on whom the success of the undertaking depended.

His success had taken him out on the high seas of finance, although it had not notably enriched his personal fortunes. It was inevitable that, with his deep sense of individual responsibility for the general welfare and with his acquired knowledge of the purpose

and methods of certain financial interests against this welfare, he should become associated with another man who, as Governor of New Jersey, was battling for the same fundamental principles. Not through any affiliations of theory, however, but out of the actual fact that his son was a student at Princeton McAdoo met Woodrow Wilson.

If the record of McAdoo's work has pictured him on the side of work alone it is but part of the portrait. Few men in an era or place where social standards were changing even more radically than political ones have given their families greater personal interest. Until the death of his wife in 1911—she had been an invalid for many years—she was his first and dominant care. The education of his six children came only second to that. To his family he gave the best of that side of himself which brought him so many lasting friendships, the solicitude for welfare, the kindliness, the eager gaiety, the lilting humor. He had inherited his father's gift for finding and using those details which charm childhood and youth. Unity of spirit, expressed in the letters between his children and himself in later years, was the fire upon his hearth.

His interest in his first son, Francis Huger, took him to Princeton where Wilson, then president of the university, had announced his intention of establishing the educational reform of dividing the college into small residence groups where representatives of the four classes would live together and in companionship with the younger members of the faculty. The measure had turned into a fight for democracy when the organized clubs opposed Wilson's plan. The reform was one designed altogether for educational efficiency, and followed the lines of the system the English call

"quadrangle"; as Wilson himself once remarked after his failure to establish it, he hadn't secured the "quad," but he certainly had got the "wrangle." So fraught with interest to the democracy of education did the issue become that McAdoo, on one of his visits to Princeton, sought a meeting with its president.

Between the two men there flamed a congeniality which may be described as a spiritual kinship. Each of them was a democrat in more than name. Each of them was a student. Each had mastered executive problems, one of a university, the other of a great construction project. Each was backgrounded by the tradition of public service, which is probably the first requisite for statesmanship. They met on the ground of high ideals, forming that friendship which was to place them shoulder to shoulder through the time of one of the three most vital crises of their nation's history. With his meeting with Woodrow Wilson, not yet the Governor of New Jersey and only a presidential possibility in the minds of a few far-seeing publicists, the public life of William Gibbs McAdoo began.

CHAPTER III

After Sixteen Years of Exile

THE stage of American politics upon which Woodrow Wilson strode had been set by Fate, the scene-shifter, in readiness for a dominant figure. In the drama of the nation's history the great theme of mass consciousness was rising to crescendo. The election of Grover Cleveland in 1884, accomplished by a margin of only a little over a thousand votes in the electorate of the state of New York, expressed the growing reaction against the use of the domination which the Republican party had exercised during their twenty-four years of office. Unbroken length of office tenure by any party tends toward official arrogance and the growth of a privileged class. A great industrial development, unquestionably nurtured by some excellent legislation from the Republicans, had, in turn, fostered conditions resulting in injustices to great groups of people who were ignored or discriminated against in the legislation of the period. The Chicago railroad strike of 1877, the first important demonstration of the power and community of interest of organized labor, struck a keynote of popular protest which grew through the years until its tide carried Cleveland into the Presidency. The return to power of the Democrats was, in its way, as significant an event in the history of the country as had been the coming into power of the Republicans in 1860, and almost as revolutionary. It was, however, a declaration of independence rather than the establishment of a constitution, for Cleveland, in spite of the fact that he "played a great part," as Wilson himself wrote of him, failed to carry out the potential desires of his constituency,

and, at the close of his second administration in 1897, went out of public life without having given his party dominance in either issues or events. The Republican party, returning to power for sixteen years, seemed to have attained impregnability of position. It was being menaced, however, by two vital enemies: by the growing progressive sentiment in its own ranks, and by William Jennings Bryan.

With the possible exception of Henry Clay, no more directing personality has stalked through the scenes of American public life than the man from Nebraska who, failing to win the ultimate goal of his ambition, nevertheless remained the political evangelist of his generation. Apparently springing from the brain of Jove with his sensational speech at the Chicago convention of 1896, he was in reality climaxing a long-held vision of his own part in the political destinies of his country. Reared in the very New Salem of Illinois where Lincoln had kept store after his return from his journey to New Orleans, he had imbibed ethical standards of political action with forensic tradition. In Jacksonville, where he attended college while dwelling with his cousin, Doctor Jones, he exercised his oratory with a definite view of its later political use. Doctor Jones, one of the most remarkable scholars of the Middle West, was the friend of Emerson, who had crossed the Alleghanies to visit him, and a student of history and theology. He was the link that bound Bryan to New England puritanism, and his influence was doubtless responsible for some of the narrowness as well as some of the strength of his cousin's character. Bryan went west with a clearly defined political code. The nation, as he saw it, was drifting away from older standards of right and wrong, was enmeshed in the toils of a plutocracy

which was rotting the fabric of constitutional liberty, and stood in peril of disintegration unless some measure of salvation was administered. In the West he found confirmatory evidence of his belief, and also the measure he believed would be efficacious; and, if he erred in linking the double standard of money with the social and economic problems which had their root in governmentally nurtured financial privilege, it was an error of political practise, and not of essence. He was great enough artist to go behind facts to tell the truth, and his declamation that mankind was being crucified upon a cross of gold was fundamentally true, although the gold was not that of a financial standard but the profits of the predatory barons whom he denounced. Had he made his campaign squarely upon the evidence, and as Roosevelt later did, he would in all likelihood have been elected, for he stirred his countrymen as they had not been stirred in thirty years. He brought back moral fire into political consciousness. Defeated time after time, he was leading his people toward the Promised Land. If his refusals to compromise with certain elements in his own party thwarted his own ambitions for office, they cleared the party decks for another crusader's success.

Within the Republican party the early years of the twentieth century had seen the rise of a group who, believing in the tenets of Republican principle, balked at worship of the god-of-things-as-they-are, and moved irresistibly toward the Progressivism of which Theodore Roosevelt became the standard-bearer. Roosevelt, thrust into the Presidency by the accident of a madman's bullet, shrewdly saw the national tendency toward elimination of intrenched privilege, and, as Bryan himself sardonically observed, stole the latter's

clothes while he was swimming. With a personality more striking than Bryan's, and a daring which made him irresistible to popular imagination, he flaunted them brilliantly, reaping the crop of his rival's pioneering. There is no doubt that he, too, advanced the mass consciousness of the American people in the struggle between privilege and general welfare; but, as an executive, his record failed to equal his speech. Seeking to carry water on both shoulders, not heeding the passage of time, he did not effect the tariff reform his country had a right to expect from him. Taft, representing the most solidly conservative elements of Republicanism, went into office to meet Waterloo on the schedules. The tariff, urged by him upon Congress, alienated from him the Progressive Republicans, who had never welcomed him, and became the rock on which the party split. It was manifestly unfair to pillory him for the accumulated errors and crimes of his party, but the Roosevelt following rushed him to the stocks, and made political capital for their more ancient enemies.

The Democrats, saved from the softness of nearly sixteen years of exile from public responsibility by Bryan's forward-looking leadership, would, however, have come to 1912 with little hope of success had it not been for the cleavage in the Republican ranks. That fact endowed them with such hope, and the Baltimore convention opened with a field as jostled with aspirants as a Kentucky Derby.

Bryan, crowded out of all possibility of being named, none the less held great power, although he had to fight valiantly to retain it. Two great delegations, the New York and the Illinois, combated him. In the New York delegation, but not in sympathy with its majority,

was McAdoo, already committed to the Wilson cause. The issue was clear-cut between progress and reaction. Wilson himself in a telegram to Bryan on the eve of the convention when the latter had wired him, with other candidates, a request to join him in opposing the selection of a reactionary chairman, had defined the issue. It was upon this definition and his own faith in Wilson's leadership that McAdoo did yeoman service during the week while the convention struggled. His own state was outside hope of conversion to the Wilson cause, but he went beyond the delegation to meet and convince other men of the necessity of making the Governor of New Jersey the party's candidate.

So genuine was his admiration for Wilson, and so keen his conviction that the latter's leadership was needed by the party and the country that he impressed not only his belief but his personality upon these converts. Politically, McAdoo was practically unknown when he came to the Baltimore convention. He left Baltimore with a personal following of men who had accepted and voted for Wilson because of his lieutenant's zealous preaching, and who were destined to regard him in later years as their interpreter to the President. He had preeminently the gift of individual sympathy. In a speech which he had delivered before the Boston Chamber of Commerce before Wilson had begun his first term as Governor, McAdoo had phrased the need of America for a leader "of dynamic and militant morality, who will cleave a way through greed and selfishness for the permanent benefit of the human race." To his vision Wilson was the man for this leadership, and, heart and soul, he espoused him. His enthusiasm, plus his faculty for making those personal adjustments for which his leader had not the time,

naturally led him to the front of the 1912 political battle, and from the beginning of August until October he directed the affairs of the Wilson campaign.

He brought into it the fair play code he had used in the building and operation of the tunnels. He announced that there would be no misrepresentations of and no personal attacks made upon other candidates or their campaign managers by Democratic headquarters. A cartoon, complained of as misrepresenting George W. Perkins, Roosevelt's manager, slipped by without his notice, and was recalled. More important, he put into operation a plan for having the banks and trust companies of the country receive campaign contributions on behalf of each one of the political parties. The measure was not only successful in raising funds for his own party, but later aided McAdoo in entire disproval of charges raised by the Republicans in Congress concerning the raising of Wilson campaign funds. During the time of his leadership he was suggested, without his consent, as a candidate for the gubernatorial nomination in New York. He came out with a denial of any such intention, asserting that he would not knowingly permit anything to be done which might create the impression that he was using his position to further his personal interests. Later in the campaign he issued a statement suggesting to the state convention that it was no time to nominate a boss-controlled candidate, and urging the delegates to act independently. It was, in its way, a defiance of Tammany at a time when few men would have dared issue such gage of conflict, fearing its effect upon his candidate. Strangely enough, it was not Wilson but McAdoo himself who was to pay for his candor. The payment, however, came years later after the Wilson adminis-

tration—to which McAdoo was destined to be what Hamilton was to Washington—had come to its close.

The election of Wilson ended a campaign which, bitterly fought between three parties, had been almost entirely concerned with domestic affairs. Tariff and trusts were the stated issues, with "Wall Street" shadowing the public consciousness. The conflict had been on the surface political, but was in reality social. Men had translated into their voting their aspirations for betterment of their own conditions. A great intellectual movement had swayed the nation—it is a significant fact that both President Wilson and Robert M. LaFollette, one of the leaders of Progressivism, had been students of Professor Ely, apostle of economic reform—and brought the electorate to expectation of Governmental functioning in those affairs most directly affecting their individual fortunes. Out of a sense of responsibility which has been exceeded by few Presidents, although the Presidency itself tends to develop this sense in its weakest holders, Woodrow Wilson pondered his course with prayer and fasting.

It must have been evident to him—his worst enemies never underrated his astuteness—that the campaign had developed McAdoo into the third leader of his party, taking place with Bryan and himself in grasp of problems and ability to light fires of guidance. Younger than either of them, McAdoo had nevertheless witnessed the passing of the older America, and had, by reason of his temperament and environment, kept closer to its traditions than had they. Without Bryan's fiery gift of oratory, without Wilson's inspirational authority of commandment-giving, he had yet his own particular quality of political strength. He knew what the ordinary man wanted, what he suffered, what he

deserved, and what he should have in all justice. He knew, too, at first hand, as neither Wilson nor Bryan knew, the powers and the methods by which this justice was denied. He had already done battle for the principle of right. He brought to the larger field of politics a crusading zeal for such legislation as would directly affect the ordinary lives of his fellow-citizens. If Bryan was the forest fire, and Wilson the beacon on the hill of their party, McAdoo was the steadily-burning, motor-driven flame of a high-powered furnace, actually a successful organizer of projects and campaigns, potentially a tremendous factor in national destinies.

Those who have accused Wilson of picking a weak Cabinet that he might rule it and overrule it seem not to take into account the fact that he chose both Bryan and McAdoo for place in it. True, he owed Bryan political debt, but he never considered such obligation when it conflicted with what he believed his duty to the electorate. The debt to McAdoo was more personal, and ethically less binding, but those who knew him best have declared that neither consideration influenced his decision. He picked the men because he regarded them best suited for the posts in his power of gift, best adapted for service in them.

As a matter of fact, Wilson knew McAdoo even then better than he knew the Nebraskan. There existed between them that curious spiritual kinship which was to evidence itself in the proving ground of Washington. That was to be, however, in a future not yet showing on the rim of the world. Less than a year and a half before the outbreak of the greatest war in history, a war which was to engage American soldiers for the first time on a battle-field of Europe, Wilson's followers, expecting of his incoming administration a domestic

millennium based on the application of justice to public affairs, knew that the work would be hard, and the way weary. No one of them nor his enemies, planning already a course to stem the tide of social progress, could have dreamed of the gigantic task which was to confront the President and his party in the hastening years.

CHAPTER IV

The Perils of Privilege

ON the fourth day of March, 1913, Woodrow Wilson was inaugurated President of the United States, and the Third American Revolution began.

Without any asserted declaration such as had marked the entrance of the Colonies into their struggle for independence, without the thunders of civil warfare which had menaced the elections of 1860, but with a vision of government no less radical than Jefferson's, and a solemnity of purpose as deep as Lincoln's, the twenty-eighth Chief Executive of the American Republic took the oath of office on the steps of the great white Capitol on the Senate hill of Washington, and started the building of an administration destined to be one of the greatly portentous periods in the history of his nation.

Untoward circumstances—the clouds of a great European conflict which was to let down upon the United States the dark waters of war—hung below the horizon. Not with these, however, although his keenly student mind apprehended them long before his weighty sense of obligation to stave off warfare admitted the necessity of action, but with the internal menaces to democracy was he most vitally concerned as he faced forward. Through years of mediocre executive direction, lightened only by occasional flashes of vivid but not continuously potent action, through years of legislative maneuverings by and judicial upholdings of a power designed to change its essence from democratic to plutocratic, the Government of the United States had subtly but none the less surely weakened from the ideal of its conception. Against the perils

of privileged encroachment upon the constitutionally pledged rights of the people of the nation Wilson was to take prompt and effective action, swinging back the pendulum of power to the point designed for it by Franklin, by Jefferson and by Madison, and held by Jackson and by Lincoln. Realization of the magnitude of his task must have been his strongest emotion as he gazed down from the point where so many Presidents had stood before him, seeing beyond the vista of city, and hills, and river to the far horizons of the country he captained.

"The firm basis of government is justice, not pity," he proclaimed. "This is the high enterprise of the new day; to lift everything that concerns our life as a nation to the light that shines from the hearthfire of every man's conscience and vision of the right. . . . This is not a day of triumph; it is a day of dedication. Here muster, not the forces of party, but the forces of humanity. Men's hearts wait upon us; men's lives hang in the balance; men's hopes call upon us to say what we will do. Who shall live up to the great trust? Who dares fail to try? I summon all honest men, all patriotic men, all forward-looking men, to my side. God helping me, I will not fail them, if they will but counsel and sustain me."

To outward seeming the country the President faced from the portico of Congress was little changed in its democracy from the Republic of the vision of its founders. The same forms, the same apparent system of checks and balances, the same semblance of popular government persisted. Only a student of past history and contemporaneous finance could have known how far below the standard of the men who fought to create it and the men who fought to uphold it the spirit in

high places had fallen. Mammon sat upon the seats of the mighty. The money-changers traded not on the porch, but in the inner shrine of the temple. To drive them out a lash of courage was needed. It befell that, even without prophetic vision of the future, Woodrow Wilson knew that the most important appointment he had to make was that of Secretary of the Treasury; and it was from no haphazard choice, no idea of repayment of obligation, no sense of expediency that he had designated for that place the man destined to stand with himself as the most important and significant public figure of their time and country.

The first duty facing the Wilson Administration when it took office in March, 1913, was the revision of the tariff. From the date of the enactment of the Payne-Aldrich Tariff Bill during the Taft administration, public sentiment against it had grown steadily until the country was convinced that a prompt downward revision was necessary. The 1912 platform had declared that "high Republican tariff is the principal cause of the unequal distribution of wealth: it is a system of taxation which makes the rich richer and the poor poorer; under its operations the American farmer and laboring man are the chief sufferers; it raises the cost of the necessaries of life to them, but does not protect their products or wages. The farmer sells largely in free markets and buys almost entirely in the protected markets. In the most highly protective industries such as cotton and wool, steel and iron, the wages of the laborers are the lowest paid in any of our industries."

While the primary duty of collecting information for the proposed revision, which was immediately taken up by the special session of Congress called by the Presi-

dent, fell upon the Ways and Means Committee of the House and on the Finance Committee of the Senate, the Treasury Department was intimately involved in the work—first, because all revenue questions have to be considered by that department; and second, because the administration of the law would fall upon that department since it involved the customs division. Throughout the fight in Congress, which finally resulted in the enactment of the Underwood-Simmons Tariff Law, McAdoo took an active part and cooperated with the President and the leaders of House and Senate to make sure that the new law would avoid the inequalities and injustices of the thoroughly discredited Payne-Aldrich measure.

The main objective was the downward revision of the existing high—in many cases prohibitive—tariff duties on necessaries of life. Once the task of revision had been started, lobbyists of all the affected industries swarmed to Washington in the hope of writing for themselves the schedules of the new act as they had written the schedules of the old. Their unwelcome presence began to have an effect so unfavorable that the President was forced to denounce them in a public statement which resulted in lessening their activities and permitting the officials of the Treasury and the members of the committees of Senate and House to work out a law in the interests of the entire people rather than of the special interests affected by the provisions of the measure.

The problem of currency reform, intimately related to the daily lives of the nation's citizens, loomed in demand for solution by the incoming administration. Through more than a half-century of centralization the money power of the United States had focused into

the hands of a small group, vaguely known as Wall Street, and brought about the control by that power of the banking interest, and, through these, the agricultural, industrial and commercial interests of the country. When the farmer needed money for the sowing, the harvesting, or the moving of crops he went to his village banker; the banker went, through other bankers higher up the scale of magnitude, to Wall Street. When the manufacturer needed money for upkeep, he applied to his town banker, and eventually the money came to him out of New York. When the merchant needed money he consulted his city banker, and in time Wall Street supplied the need. There were times, though, when Wall Street failed to supply, or raised interest rates, or otherwise disturbed the money market for no reason beyond the desire of men with much money for more. The result was at least near-panic, and sometimes complete panic. Worse than panic was the domination enjoyed by the money power over the channels of the nation's life. It was as if the barons sat, guns loaded, on the emplacements over every lock. The Treasury of the United States, which should have been the fortress against such domination, had degenerated into a mere maker of the coin and currency which filtered into Wall Street.

The campaigns of twelve years, although arousing the country to realization of the situation, had brought little definite information or definite action until the year after Wilson's first election. On the twenty-eighth day of February, 1913, four days before Wilson's inauguration, the Committee on Banking and Currency of the House of Representatives submitted to that body the report of its investigations on the concentration of money and credit in the United States. The Pujo Re-

port, so called from the committee's chairman, Arsène P. Pujo of Louisiana, revealed a state of affairs startling in its magnitude and significance, and, in the language of the report, "fraught with peril to the welfare of the country."

The committee, delegated by an Act of Congress of April 22, 1912, to secure information for the guidance of Congress in consideration of bills then pending in relation to the currency, monetary and national banking systems, and trade combinations, held its first session for the examination of witnesses on May 16, 1912, but as an impression had been created in the public mind that the purpose of the investigation was to gain partisan advantage in the approaching presidential election, an impression which, if allowed to remain, would have been fatal to the usefulness of the investigations, the taking of testimony on the main points was postponed until after the election.

In the meantime a list of questions prepared by the committee had been forwarded to all national banks, state banks and trust companies in the United States, numbering approximately thirty thousand, with the request that they return written replies. In all about twelve thousand of the smaller national banks responded, reserving reply, however, to certain questions on the ground that the information sought was confidential between bank and customer. Most of the state institutions and of the principal national banks in New York, Philadelphia, Boston and St. Louis refused or omitted to make any return, and denied the power or jurisdiction of the committee to inquire into their affairs.

Samuel Untermyer, of New York City, engaged as chief counsel by the committee, under authority ex-

pressly granted by Congress, advised that the position taken by these banks was untenable; that under the construction for which the banks contended the creatures of Congress could be beyond the control of their creator, a construction which Congress had never intended. He held that the attitude of the banks assumed that the Comptroller of the Currency was the only official of the Government whose acts or omissions were beyond Congressional scrutiny. The banks had, in effect, defied the legislative power of the United States.

It was a question open to judicial interpretation, but the committee, wisely deciding that a test of the question in the courts would involve delays and obstructions that would prove disastrous to its purpose, put through the passage of a bill in the House of Representatives covering the point at issue. The Senate, however, delayed action on the bill for two months, then received an adverse report from its finance committee. The resolution authorizing the inquiry had provided that the Comptroller of the Currency, the Secretary of the Treasury, and the Commissioner of the Bureau of Corporations, with their respective assistants and subordinates, should comply with the directions of the committee for assistance in its labors, and place at the service of that inquisitorial body all data and records in their respective departments. When in September, 1912, the committee called on the Comptroller to supply certain data concerning the business and the practises of the larger national banks, he referred the request to the President for instructions, in obedience, as he claimed, to the general executive order issued by President Roosevelt, and reissued by President Taft, which prohibited any head of department or other

official thereof from furnishing information without the permission of the President.

President Taft granted a hearing on the request of the committee for such permission, but rendered no decision for two months. Then, although he admitted that the Attorney-General had advised him that it was within his discretion to direct the Comptroller of the Currency to obtain for the committee the information it sought, he thought it would be "interfering with the duties of the Comptroller and imposing upon him too great a burden to make him the investigating instrument of a committee of the House, which itself has ample powers for the purpose, or, if not, can obtain them from Congress." It was a high wall, but the November elections of 1912 had been tonic to any flagging spirits on the firing lines, and the Pujo Committee leaped it, proceeding to direct action without the aid of the Treasury, the Senate, or the White House.

Whatever of partisan bias the Pujo Report may have, there is no denying that it presents an exhaustive summary of the American financial conditions of its time, the conditions which William Gibbs McAdoo, as Secretary of the Treasury, was to face within the course of a few weeks. The hearings, considering clearing-house associations, the New York Stock Exchange, and the concentration of control of money and credit, summoned to the bar of inquiry the financial giants of the United States. Some of them, fortified behind legal barriers and armed guards, maneuvered out of appearance. The Sick Man of Europe had a dozen brothers. Others came, some with thunderbolts, some with soothing syrup, but all with hostility, open or concealed, to the purpose of the inquiry. J. P. Morgan, stormily declaring that all credit, even stock-exchange transac-

tions, was based on character rather than on financial security, and insisting himself devoid of power or control over any institutions but his own, held the last stockade for his brethren; but, in spite of his thunders, in spite of the suavity of his associates, the committee deduced from the testimony presented that J. P. Morgan & Company were the most active agents in forwarding and bringing about the concentration of control of money and credit through various processes of consolidations. Named with them were the First National Bank of New York, the National City Bank of New York, Lee, Higginson & Company of Boston and New York, Kidder, Peabody & Company of Boston and New York, and Kuhn, Loeb & Company. The concentrations, the committee specified, had been effected in five ways:

"First, through consolidations of competitive or potentially competitive banks and trust companies, which consolidations in turn have recently been brought under sympathetic management.

"Second, through the same powerful interests becoming large stockholders in potentially competitive banks and trust companies. This is the simplest way of acquiring control, but since it requires the largest investment of capital, it is the least used, although the recent investments in that direction for that apparent purpose amount to tens of millions of dollars in present market values.

"Third, through the confederation of potentially competitive banks and trust companies by means of the system of interlocking directorates.

"Fourth, through the influence which the more powerful banking houses, banks and trust companies have secured in the management of insurance companies,

railroads, producing and trading corporations, trusts, fiscal agency contracts, or representation upon their boards of directors, or through supplying the money requirements of railway, industrial and public utilities corporations and thereby being enabled to participate in the determination of their financial and business policies.

"Fifth, through partnership or joint account arrangements between a few of the leading banking houses, banks and trust companies in the purchase of security issues of the great interstate corporations, accompanied by understandings of recent growth—sometimes called 'banking ethics'—which have had the effect of effectually destroying competition between such banking houses, banks and trust companies in the struggle for business or in the purchase and sale of large issues of such securities."

The report, detailing the evolution of the controlling groups of American financiers, declared that it was manifestly absurd to suggest that control be corralled by any set of men. It pointed out, however, that it is not necessary that a group of men shall directly control the small savings in the banks nor the scattered resources of the country in order to monopolize the great financial transactions or to be able to dictate the credits that shall be extended to or withheld from the more important business enterprises. This, the committee insisted, was exactly what had been accomplished, and went on to announce that "If by a 'money trust' is meant an established and well-defined identity and community of interest between a few leaders of finance which has been created and held together through stock holdings, interlocking directorates, and other forms of domination over banks, trust companies, railroads,

public-service and industrial corporations, and which has resulted in a vast and growing concentration of control of money and credits in the hands of a comparatively few men, it had no hesitation in asserting that the result of its investigation showed the existence of such a 'money trust.' "

The Pujo Report, comprehensive though it was on other points, failed to yoke up the Treasury of the United States with the policy of concentration, except in rebuke of the refusal of the Comptroller of the Currency to open his books to their investigation. As a matter of fact, both by sins of commission and of omissions, the Treasury was guilty not only of association with the system, but was one of its strong bulwarks. It remained for McAdoo, taking the Secretaryship on the sixth of March, 1913, to discover and uproot the tendrils of privilege which had wound themselves around the institution.

His first administrative act, however, was not of combat but of humanitarian relief. Dayton, Ohio, had been inundated by flood, which overwhelmed its banks as well as its streets. Fearing great losses, the banks dared not open their doors until most effective and enduring relief came through the order of the Secretary of the Treasury, designating the seven national banks of Dayton as authorized depositaries for Government funds, and announcing that when these banks complied with the law by depositing with the Treasurer of the United States acceptable securities in the form of Government, state, city or county bonds, he would immediately transfer to them from the Sub-Treasuries the sum of two million dollars. The action, radical in that it was the first time since 1908 a Secretary of the Treasury had permitted the general depositaries of

the Government to deposit as securities for Government deposits bonds other than those of the United States Government or of the District of Columbia or provincial Governments, saved the city from panic.

The Secretary's first attack upon the association of the Treasury with the group the Pujo Report had designated as the "money trust" came on the twenty-third of April, 1913. As has many another *cause celebre,* it originated out of an apparently minor incident, in this case the placement in the office of the Comptroller of the Currency of a clerk, employed by the National City Bank of New York and the Riggs National Bank of Washington.

Almost immediately after McAdoo had become Secretary he had been advised of the close relations between the Riggs National Bank and the National City Bank of New York, one of the six systems particularly designated by the Pujo Committee as concentrators and controllers of credit. He had heard rumors of the favoritism shown to both the National City and the Riggs National Banks by the Treasury Department where Frank A. Vanderlip, President of the National City Bank, and Milton E. Ailes, Vice-President of the Riggs National Bank, had been for a time assistant secretaries. He had been informed that the former institution, through the City Securities Company, which it had organized as an auxiliary and the entire stock of which was owned by the stockholders of the parent bank in proportion to their ownership of shares in that bank, was also a large shareholder in the Riggs National Bank. He learned that not only did Ailes receive about two-thirds of his annual salary from the New York bank, but that on the same payroll was a clerk with an office in the

Treasury building whose duty it was to compile statistics of national banks after each report of conditions, these statistics for the benefit of the employers to whom were made advance reports on the condition of national banks. Immediately McAdoo ordered the privilege discontinued, issuing the following order, in essence a defiance of the titans of the money market:

"A few weeks ago suggestion was made to the Secretary that certain banks had long maintained private employees in the Treasury Department for the purpose of reporting to them on the transactions and business of the Treasury.

"As a result of an investigation which was promptly begun, it develops that the National City Bank of New York, acting through Mr. Ailes, Vice-President of the Riggs National Bank, of Washington, has employed a clerk outside of the department, who has been given a desk in the office of the Comptroller of the Currency, and who has, for the past eight or ten years, made regular reports to the National City Bank on the condition of each national bank in the country promptly following every call of the Comptroller of the Currency.

"This is, of course, irregular and improper, and immediately upon its discovery it was stopped. It is only fair to say that the banks claim that the information so obtained is only such as in due course is made public by the individual banks or the department. But the method employed of installing a private employee with a desk in the Treasury Department, gives the bank so favored an undue advantage, in the way of advance information, over all other banks in the country. At the same time, it tends to establish intimate relationships with the employees of the Government and to the acquirement of information of a confidential nature

that ought not to be given to individuals or private corporations, and which, if given at all, should be published to the entire country. It is needless to point out that if any large number of banks should claim the same privilege, the Treasury Department would be overrun with private employees, to the serious injury and detriment of the service.

"Many of the transactions with the department are necessarily of a confidential nature, and no Government employee should, upon any inducement or consideration, supply information to any private interest beyond what is given out officially to all.

"It was with these rumors in mind, and for the purpose of developing the facts, that the Secretary issued the order, a few weeks ago, about giving out information by the heads of departments except through the Secretary's office. To have fully explained at that time the purpose of this order might have defeated the end in view. Some of the newspapers unhappily denounced this as 'gag rule,' and have thereby greatly impaired the usefulness of an order which was designed solely for the public good and to prevent the Treasury Department from being used for the benefit of any special interest. The policy of this administration is 'pitiless publicity.' The Secretary is in full sympathy with that policy, but, in executing it, he is animated solely by a desire to prevent the improper giving out of information concerning the business of the department and to secure the publication only of such legitimate and authentic news as will conserve and protect the public interest."

Affirmation that he had promoted the public weal by his dismissal of the National City Bank's employee came to him from over the country, not merely from

the laity to whom the act appealed as an attack upon the privilege of the vested interests, but also from men versed in affairs of state. William Kent, Republican Member of Congress from the First District of California, and one of the most progressive thinkers in that body, wrote congratulations to McAdoo, citing to him a case in point. Certain responsible citizens of a town in his district had applied for a national bank charter. Before any of the men interested had been given official information of it, Kent was told by a Riggs Bank officer that the charter would be refused. "In other words," he wrote, "I got early information of Federal business from Mr. Rockefeller's bank."

Connection between the National City Bank and the Standard Oil Company had, of course, been open enough even before the investigations of the Committee on Banking and Currency had established its existence. The association of both with the Treasury of the United States was more subtle, but the footprint had shown on the sand. The new Secretary was following a tangled trail of intrigue. From the disbarment in McKinley's time of foreign beet sugar to the later rebates on shipments of tin—all measures intimately related to the cost of living—the tendency of control of the public office for purpose of private gain had been apparent. If McAdoo pressed one prosecution with what might have seemed undue vigor, it was because he knew, though he could not yet assert, the end of the trail, of which the expulsion of one agent had been but the beginning.

In spite of the Secretary's insistent protests—later affirmed on the witness stand when the issue between the Treasury and the Riggs National Bank had come to the point of court action—that he had been inspired

by no personal animosity against that bank or against the National City Bank of New York, and had never sought any association with or aid from it, his issuance of the statement brought on him the antagonism of the Washington institution. For two years, intensified rather than diminished by the outbreak of the European War—the contest waged, the Treasury, marshaled by McAdoo and lieutenanted by John Skelton Williams, Assistant Secretary of the Treasury and later Comptroller of the Currency, withholding the special privileges formerly enjoyed by the bank, and the bank taking the stand that the public officials were wantonly conspiring against it out of unwarranted prejudice.

Another step McAdoo took was destined to bring him into more bitter conflict with the Washington bank, althought it did not come to a climax until June 11, 1914, when he withdrew the Government deposit of one hundred thousand dollars in the Riggs Bank. The issue—broader and more nationally important than either the incident of the spy in the Comptroller's office or that of the United States Trust Company purchase —had been defined before the end of his first week in office when he had called on Robert O. Bailey, Assistant Secretary of the Treasury, and later associated with the National City Bank, for a memorandum concerning the use of national banks as Government depositaries.

From this report the Secretary found that the Government had $48,754,000 on deposit in the 1,379 national banks that were designated depositaries of funds, there being in all 7,445 such banks in the country. On this amount the Government was receiving no interest whatsoever. There were also nine hundred

inactive depositaries in which during the time of Secretary Leslie M. Shaw certain amounts of surplus funds had been deposited, but from which certain sums had been withdrawn from time to time until there remained only one thousand dollars in each on which interest of two per cent. was being paid. The minimum was held merely to retain the name of depositaries.

"There is no escaping the fact," wrote Bailey, an Assistant Secretary of the Treasury under McVeagh, "that the designation of banks by the Secretary must largely contain the element of favoritism. The National Bank Act gives the Secretary authority to make these designations. It has always been construed to mean that no bank should have the designation of United States Depositary unless it actually has the money on deposit. It is, of course, not necessary for the Government to have funds on deposit with every national bank.

"These temporary deposits, together with active deposits, constitute an aggregate of $48,000,000 which the Treasury has in banks at the present time. There are surplus funds in the Treasury, which means in the Treasury here and in the various nine Sub-Treasuries, of approximately $80,000,000. *Great pressure was brought to bear on the Secretary during the crop moving period of last year, to distribute among the banks at least a portion of that surplus. The Secretary refrained from doing this on the theory that should an actual financial stringency arise this surplus would constitute the only reserve fund in the country and could be used to obviate an actual financial crisis, whereas, if he placed it in banks to meet simply a 'tight money' situation, which might be followed by a finan-*

cial crisis, he would then be unable to give any relief whatsoever."

In other words, Secretary McVeagh had reasoned that, since his medicine was at all limited, he should wait until the patient grew worse before he administered any of it!

In the course of his inquiry into the disposition of these Government deposits McAdoo came on the information that on April 11, 1903, Milton E. Ailes, then an Assistant Secretary of the Treasury, and in charge of the fiscal "bureau," which directed and controlled the deposits to designated national banks, had directed the deposit of $2,900,000 in the Riggs National Bank. Four days later he resigned his Treasury position, and became director of the Riggs Bank. The connection, added to the fact that Frank A. Vanderlip had, during his incumbency of the same "bureau," directed the deposit of Government funds in the National City Bank of New York to these amounts:

1898	$10,497,000
1899	14,244,000
1900	15,977,000
1901	14,714,000

thereafter entering the National City as Vice-President, led the Secretary to certain calculations on the benefits derived by these banks and other banks on Government deposits.

He discovered that if the national bank depositaries of the Government had been required during the sixteen years from 1896 to 1912 to pay interest on their average balances at the rate of two per cent. per annum, the net revenues of the Government would have been increased during that period by the sum of $30,610,-

381. The four years previous to 1897 would have netted, however, only an interest on Government deposits of $1,299,219, for the deposits during Cleveland's administration were not large. The largest amount of money on deposit with national banks at any one time had been in December, 1907, when these deposits ran as high as $259,994,000. Even the Aldrich-Vreeland Act, passed in 1908, had provided for interest only on certain special and inactive accounts.

It was manifestly impossible for the Treasury to make every national bank a depositary of Government funds. McAdoo devised, however, a more equable system of distribution, and required that after June 1, 1913, all Government depositaries should pay at the rate of two per cent. per annum on average monthly balances. He also added Government deposits to the amount of $10,000,000 in the designated banks. The fairness of his plan was manifested by the fact that more than ninety-nine per cent. of the 1,402 depositary banks readily acquiesced in the order relative to the payment of interest.

The placing of the deposits brought on McAdoo a deluge of political requests for the favoring of certain national banks, some of them not particularly suited for the purpose of deposits. His refusal to place such deposits on any ground other than the national welfare undoubtedly created political enmities which had their effect in the San Francisco Convention of 1920. There were instances where national committeemen of his party asked for the placing of deposits in banks in ridiculously small communities, advancing no argument beyond political expediency. In full knowledge that his action was not according to the old political game, he refused their requests. Some banks called in

the redistribution played the rôle of the unjust steward, and called the loans of other banks related to them or of individuals supposed to possess political influence. The influence, in turn came to Washington, but nothing moved McAdoo. He stood politely, courteously adamant, and the chosen banks began to pay interest at the rate of $1,100,000 a year.

In the June redistribution, in spite of the trouble in which the Riggs Bank was already involved with the Treasury, the Secretary allowed the Government deposit to remain. Only when in May, 1914, the Comptroller of the Currency reported to him that a large proportion of the loans of the bank had been made on the security of stocks and bonds and revealed the New York Stock Exchange stock market operations of its officers did he order the one hundred thousand dollars on deposit in the Riggs withdrawn. He did not take this action until June 11, 1914, when he had satisfied himself that the bank had not only made seventy-five per cent. of its loans on stocks and bonds, but that the Government funds were being used to assist in carrying speculative accounts created through a brokerage firm consisting of officers of the bank conducting a stock-brokerage business within the bank itself.

From that time until May 31, 1916, when the case of the Riggs Bank against William Gibbs McAdoo and John Skelton Williams, charging them with conspiracy to wreck the business of the institution, came to an end in the Supreme Court of the District of Columbia, the clouds of battle hung between the little white building at the right and the big gray structure at the left of Pennsylvania Avenue. In the trial both ex-President Roosevelt and ex-President Taft appeared as character witnesses for the Riggs Bank officers. Only

when the court had dismissed all charges of malice and conspiracy, upheld the Secretary of the Treasury in his right to guard the Government's funds, and had found the Comptroller at fault only in one technicality, the form of demand upon the bank for the information he sought and which the court conceded he had the right to demand, did the conflict subside.

In fairness to the principal combatants the letter sent to McAdoo by John J. Cornwell, afterward Governor of West Virginia, on June 22, 1916, should go into the record:

"I learned," he wrote, "while in Washington yesterday, that the Riggs Bank was to be rechartered. This is, therefore, to thank you for the time and courteous treatment you gave me in that matter.

"I want also to say that I can assure you that instead of Milton Ailes inspiring criticism of the Treasury Department in the future, regardless of what may have occurred in the past, he appreciates your patience and fairness in dealing with it and expressed to me a desire not only to cooperate with the department, so far as the bank's business is concerned, but to be of service to you, in any direction, if it lies in his power. I think he would like to say that to you personally, and if you will permit it, I want to take him to you the first time I am there and have him give you these assurances, which, I guarantee, are in good faith."

It was a big thing for Ailes to admit, for it must have been hard for him to see that the Secretary's action had been not against an individual but in defense of a public trust, and it was a big thing, too, for McAdoo to take the assurance on its face value, especially against the well-meant earlier assurances of the loyal Williams that Ailes had not been "converted" nor

grown "penitent." Had he failed to accept the olive branch he might have created a situation that would have prevented the later Governmental utilization of the National City Bank and its ramifications in a crisis when the country needed every available resource. His lack of personal bitterness toward his opponents—evidenced by his aid to the National City in the trying days of August, 1914, when his prompt action in that bank's behalf prevented possible disaster to it—had its own reward in the dark times of war that were coming to try the strength and the souls of men.

By the Riggs Bank case and its corollaries he had served notice of execution upon the octopus of the Treasury. By his statement in July, 1913, when the great money-lenders of Wall Street were beginning to tighten their grip on the nation, when pessimistic propaganda was being broadcast, and threats and rumors of panic were rife, that the Government had on hand and ready for issue $500,000,000 of bond-notes, as provided for in the Aldrich-Vreeland Act of 1908, he restored public confidence and relaxed the tightening situation. The money-changers were driven from the temple, inner shrine and portico. With the deposit on July 31, 1913, of $50,000,000 in the banks of cities and towns of those states where crops were being harvested and must be moved, the Treasury of the United States flung out the last rags of special privilege. The Augean stables had been cleaned.

The tearing down of an old and evil system was, however, but the beginning of the task which McAdoo had undertaken. Too good a builder to estimate a work of destruction as anything but preparation for the laying of a foundation for a better, wiser, broader structure, he brushed aside the debris of the wreck, and

started the steam-shovel for the immediate erection of the sky-scrapers of his financial statesmanship, the Farm Loan Board and the Federal Reserve System.

CHAPTER V

The Federal Reserve Act

THE history of political parties in the United States pivots—except for the foundation of the present Republican party on the issues of slavery—upon the currency system of the nation. From the time of the establishment of the Treasury until the present the issue has been, despite all efforts to fog it by clouds of extraneous detail, sharply defined, a warfare between those who have believed in the government of the people by themselves and their representatives and those who have believed in government by the selected few or a restricted class. With the clearance of the underbrush of banks, coinage, greenbacks, excise taxes, tariffs, sinking funds and bond issues it is not difficult to apprehend the truth that, no matter what the naming or the platforming of parties, there have existed and remained in the United States two great parties, the one essentially democratic, the other essentially aristocratic. Inevitably, since financial power is the sinew of combat between parties as it is between nations, control of the Treasury became the stake of conflict. Over it parties rose and fell, came into power, died and were forgotten, but the principles underlying them—the Hamiltonian and the Jeffersonian—persisted.

The debate in Congress upon Hamilton's proposal for the establishment of the First Bank of the United States focused less upon the fiscal and commercial merits and demerits of the institution than upon the issue that the bank would be a monopoly inconsistent with the freedom of the Republic. The bill, opposed by Madison as unconstitutional, passed the House by

a sectional vote, and was signed by Washington after some hesitation. The bank embarked on existence as a symbol of the Federalists, and its log became the record of that party's life, decadence and death. In 1811 the bill for its renewal was finally lost in the Senate after a stormy debate where it was characterized by the Republicans—later to be known as the Democrats—as an undemocratic political institution, and by the moribund Federalists as a necessary force in centralizing the forces of a weak government.

The ending of the War of 1812 found the United States in such wretched financial condition that even so violent an enemy of a central bank as Madison, then in the Presidency, had to subscribe to expediency and agree with Dallas, his Secretary of the Treasury, that a national bank was necessary as an instrument of compulsion to force the state banks to resume specie payments. Calhoun joined with them in support, and Webster suggested a measure on somewhat similar lines. John Randolph, however, consistently attacked the bill, and the later measure which was passed on the ground that a bank "would be an engine of irresistible power in the hands of any administration; it would be in politics and finance what the celebrated proposition of Archimedes was in physics—a place, the fulcrum, from which at the will of the executive the whole nation could be hurled to destruction."

An attack upon the constitutionality of the Second Bank came to a head in 1819 with the decision of the Supreme Court of the United States in the famous case of *McCulloch v. Maryland*. The opinion, written by Chief-Justice Marshall, is probably the strongest link in the chain with which he bound together the

fundamental powers of the Federal Government. The exploitation of the bank, however, for private gain and political power by Nicholas Biddle led to its eventual disestablishment, the first attack upon it being made by Senator Benton, of Missouri, whose steady artillery of denunciation gave him the name of "Old Bullion."

After a bitter warfare which involved President Jackson and all the important political figures of his time, the titans of the constructive period of America, the Second Bank of the United States collapsed under Jackson's proof that between January, 1831, and May, 1832, the loans of the institution had been increased for political purposes from $42,000,000 to $70,000,000, and his belief that, if the monopoly of a national bank be sold at all, it should not "be bestowed on the subjects of a foreign Government nor upon a designated and favored class of men in our own country."

After the difficulties and fiasco of Van Buren's administration the Whig party returned to power with a definite though veiled plan for the establishment of a Third Bank of the United States. Had General Harrison lived, the plan would probably have carried, but Tyler, come into the Presidency through the former's death, vetoed the so-called Fiscal Corporation, and no constructive financial legislation was enacted until the return to power of the Democrats in the 'forties of the last century reestablished the sub-treasury system, which began its work under the serious handicaps of opposition from bankers and lack of proper appropriations from Congress, but which proved useful from the beginning. No little of the success of financing the Mexican War came from its reestablishment, and, combined with the heavy imports of specie in 1847

and the large production of gold following the California discoveries of 1848, it served as a stabilizer of national finances.

The Civil War, bringing unprecedented problems of finance to the Government, created a situation of such grave danger as to threaten inundation of national finances. After nearly two years of expedient and largely ineffective measures the National Banking Act of 1863 was approved. The system provided for a national currency secured by a pledge of United States bonds and also for the circulation and redemption of such currency. A national banking association by depositing United States bonds with the Treasurer of the United States could receive circulating notes to the amount of ninety per cent. of the current market value of the bonds deposited, not exceeding, however, ninety per cent. of the par value of these bonds. The amount of notes to be issued was originally limited to three hundred million dollars, to be apportioned to banks in the various states according to population and existing banking conditions. The notes were receivable for all Government dues except duties on imports. They were payable by the Government except for its indebtedness and for interest on its bonds. Every issuing bank had to redeem its circulation at its own counter. A bureau of currency in the Treasury Department supervised the operation of the system.

In spite of the panic of 1873, in spite of the demonetization of silver, in spite of tariff changes under Cleveland, in spite of a score of fiscal issues associated with the national bank method, the system remained in operation, with, of course, certain changes, until the passage in 1908 of the Aldrich-Vreeland Act, which permitted the issuance of cur-

rency based on commercial paper by associations of banks known as "National Currency Associations." It also allowed national banks to deposit bonds of specified classes with the Treasury, and to receive direct issues of currency based on these. In every case the new currency was made the subject of a very high rate of taxation, this measure being used on the supposition that it would force rapid retirement of the notes. The Act also created a "National Monetary Commission," to consist of Senators and Representatives only, and given almost unlimited power of investigation into the currency and banking conditions of the time. It was this investigation which, with the turning of the tide from Republicans to Democrats in the Congressional elections of 1910, opened highway and byways for the later Pujo Report. Its immediate effect was the proposal of a bill which never received public approbation, and which went into the discard with the passing of the Taft administration in 1913, making way for the Federal Reserve Act, which, using some features of the Aldrich plan, differed from it so essentially that Senator Aldrich denounced it roundly, and the great banking interests of the country which had fostered the currency change rose in titanic combat against the establishment of a monetary reform by the Democratic administration.

From its inception the operation of the National Banking Act had favored the creation of a money power outside the Treasury of the United States. In the financing of the Civil War Lincoln recognized the danger from Wall Street, and, had Chase been entirely loyal to him, could probably have coped with it successfully. Chase, however, obsessed by his own ambitions, let the opportunity of great public service

pass him, and the power of a limited group of financiers who sacrificed the general welfare to their own aggrandizement grew apace. With the development of American corporate interests, protected by special tariff legislation, the method of operation of the national banks relating to their reserve funds began to constitute a grave menace to democratic institutions.

Under the National Banking Act, even as modified by the Aldrich-Vreeland Act, there existed only three central reserve cities in the United States, New York, Chicago and St. Louis. Next to these three the Act named forty-seven other cities according to their ratios of population and fiscal importance. The law required that all banks in reserve cities taking advantage of the Act should keep nominally on hand at all times a reserve of one-quarter of the total amounts of their deposits. The law permitted, however, each bank to send one-half of its total reserve to the banks of the central reserve cities as a special deposit and yet count this special deposit as part of its own reserves.

It was eating their cake and having it, but, most of all, it favored the large national banks to such an extent that by 1912 a half-dozen banks in New York and Chicago controlled so large a part of the bank reserves of the country that they practically controlled the credit situation.

It was this fund—furnished by the depositors of the United States—which constituted the great reserve which had built up the power of the organization vaguely known as "Wall Street." Few of the banking companies had location upon the narrow byway of New York's financial life, but a very large

part of the reserve fund they controlled—fiscal experts estimated the percentage as three-fourths—was being loaned by these big banks day after day on "call loans" for Wall Street operations. The same fund aided in the underwriting of the trusts, and facilitated all the operations of organized capital. The funds themselves were, to be sure, returnable to the local national banks, but the profits on their use remained with the great banking companies, with the interest on the use going to the local banker. It was a system which diverted capital from local constructive building to Wall Street speculation and the promotion of vast monopolies. The statement of the Comptroller of the Currency on November 24, 1912, showed that two hundred and forty million dollars belonging to the depositors of the 7,473 national banks in the United States were on that date in the custody of the few big banks of the central reserve cities.

The Aldrich plan, correcting many mistakes and abuses in the old system, in no way changed its essence. "The heart of the Aldrich plan," President Wilson said of it in 1914, "was a single central bank which was susceptible of being controlled by the very men who have always dictated the financial policy of the Republican party, whereas, the heart of our system (the Federal Reserve) is not a great central bank, but a body appointed by and responsible to the Government, and, by the same token, responsible to the people of the United States. The hand is the hand of Esau, but the heart is the heart of Jacob, and that heart is the heart of the Democratic party, the control by representatives of the people of the things that concern the whole people."

The Democratic platform of 1912, expressive of the

sustained battle of the party against special financial privilege, pledged the incoming administration to provide against a central reserve bank. The issue was, with the revision of the tariff, the immediate business of the Wilson forces. The peculiar power given the Secretary of the Treasury by the provision of 1800, establishing his duty as an appearance before Congress with a report of the finances at the beginning of each session, as well as McAdoo's own particular fitness for the consummation of the task, led the President to entrust him with the campaign for the passage of a law that would overthrow the barons of Wall Street.

If Wilson was the Bonaparte of the attack, McAdoo was the Marshal Ney. He brought to the battleground a knowledge of the enemy remarkable to a man in political office. He had already met their leaders in personal conflict. He had already taken issue with one of their inner council by flinging out its representative in the office of the Comptroller of the Currency. He had rearranged Government deposits in national banks in such a way as to minimize the danger of favoritism, and had required interest on such deposits from the banks with which they were made. He had already served notice of intention and ability to give battle, and he made ready for the fray with characteristic energy and action.

He had for support the sympathy, the approval and the power of the President in his struggle against vested financial interest. He had the resources—not often used in such action—of the Treasury. He had the ability to handle men. Most of all, he had unlimited courage. He had no allegiance to any one but Woodrow Wilson, no responsibility except to the

people of the nation. He did not love a fight for its own sake, but, once in combat, he swung his pike as lustily as any other Gael.

Clear-cut as was the issue, the battle-ground was in its way as deep a jungle as had been the great Okefinokee Swamp where McAdoo's grandfather had routed the Indians. The power of private gain at public expense is a hydra-headed monster, and the ramifications of the money power of the country were quite naturally thickest and strongest at the point where they could do that power the most adequate service, Washington. As the President said, "Wall Street controlled the Treasury of the United States." The group so nominated controlled more than the Treasury. Until the actual revolution of 1913 its directing brains controlled—in some cases by class feeling, in others by eventual interest, in a few by actual purchase—human levers in every branch of the Government. Practically all the social life of the capital was impregnated by the idea that government was operated for the benefit of the few. The thought of the American public—at all times one of the vaguest of generalities—is nowhere more vague than in Washington. It is the duty of the executive officer, however, to see beyond the capital to the country, but the man who does this accomplishes the result only by conscious struggle against the sapping atmosphere of his immediate environment. Progress toward real reform was like walking over quicksands to a dim beacon. The fighter must bear his own lantern of courage, and McAdoo, treading on ground that was not less dangerous because he refused to acknowledge its dangers, carried no flickering gleam but a searchlight.

First of all, he knew what he wanted, and, second,

he knew what he was likely to win. One of his first measures in public office was a securing of a comparison between the monetary system of England, France, Germany and the United States. It is significant that one of his earliest memoranda of the Federal Reserve legislation, attached to a comprehensive review of the foreign systems, reads, "Government chief depositor in Reserve Bank therefore ought to look after its own," a succinct enough declaration of a fact that seemed in danger of being hidden under a mass of argument concerning technicalities of finance.

On April 7, 1913, President Wilson called an extra session of Congress for consideration of tariff legislation. The need of currency legislation, although considered by the President equally vital with the tariff measures, was not stressed but was pressed forward by all other means in the power of the administration.

Currency reform, clamored for by the public from the time when expert investigation had shown that the panic of 1907, precipitated by the refusal of the National Bank of Commerce to clear for the Knickerbocker Trust Company of New York and the subsequent failure of the latter bank, was altogether a banker's panic, had progressed in Congress only to the point of the adoption of the Aldrich-Vreeland Bill and the appointment of the National Monetary Commission. The Aldrich-Vreeland was nothing but an emergency measure, and due to expire in June, 1914. The gain of a certain degree of Congressional control by the Democrats in 1910 forced the monetary commission to close its investigations and bring in its report. While Pujo, of Louisiana, who had been a member of the National Monetary Commission, was conducting his sensational but instructive inquiry into money combinations Car-

ter Glass, a Democratic Congressman from Virginia, with a sub-committee from the House Committee on Banking and Currency, was making a study of banking legislation, examining witnesses, and delving into financial conditions.

In April, 1913, with the entrance of the Democratic party into real power, Glass was made chairman of the House Committee on Banking, and, with the aid of H. Parker Willis, a student of economics, drafted a currency measure which was to become the groundwork of the Federal Reserve. This measure, coming to the President and the Secretary of the Treasury for their consideration, was the foundation upon which McAdoo built the fiscal reforms of his time in office.

It was inevitable that the draft of the measure, as it came to the Secretary, should require revisions, and it was into consideration of these revisions that he put a large part of his constructive labors. He had to call conferences for study of the proposed legislation, had to study and revise its provisions, had to summon its cohorts, and to defeat its enemies. His work for the passage of the Federal Reserve Act falls into three divisions: the choice of the best measure of currency reform; the fight against banking interests striving to prevent the passage of a measure that would interfere with their profits and advantages from the existing system; and the direction of the legislative battle for the passage of the bill.

The choice of the measure was attained only by most careful consideration, by extensive conferences and by constant recognition of the needs and rights of the great body national. Throughout records of conferences and letters of inquiry and statement the Secretary's remarkable gift for visualizing the average

man's requirement of national finance runs like a bright thread on a ground of gray tangle. Government was to him not an abstract power but a responsible custodian. His stewardship was untiring. No detail of the structure of the financial measure intended for public relief was too small to be overlooked. Some dozen drafts of the Federal Reserve Act—the first was designated as the National Reserve Act—were made by him. From every possible source he gathered information and outlook. Democratic in his mentality as well as in his political theory, he rejected no idea until he had examined it thoroughly. If it was good, he incorporated it into the bill which grew from day to day into the structure which, after Congressional custom, took the names of the men who introduced it into the House and the Senate, Representative Glass of Virginia, and Senator Robert L. Owen of Oklahoma.

For the strengthening of the measure the Secretary enlisted the service of men whose disinterestedness he could trust and on whose judgment he could depend. Samuel Untermyer, attorney for the Pujo Committee, and Paul M. Warburg, afterward a member of the first Federal Reserve Board, going abroad in June of 1913, made intensive study of foreign banking systems in relation to the projected bill, and gave to McAdoo the benefit of their observations on these, as well as on questions of internal banking. Untermyer, however, believed that six Federal Reserve cities, instead of the twelve established by the Act, would prove better for distribution of power, while Warburg favored eight, and believed that the financial preponderance of the northeastern angle of the United States was such that, no matter how the country was divided, the nation would have to rely for its financing largely upon the

banking power of that section. Bankers from all over the country came to Washington at McAdoo's invitation to discuss with him the pros and cons of the measure. He himself went to New York, sounding the depths of support as well as of opposition.

In the House of Representatives the President and Secretary had the able leadership of Glass, one of the most determined fighters who ever rose on the floor of Congress. Chairman of the Committee on Banking and Currency, he had been devoting his political lifetime to the fiscal problems of the nation. During twelve years in the House he spoke but six times, but he made every one of those times momentous. Short, stocky, sandy, his eye and his mouth drawn down by long and cynical study of his arena, he had a Jovian quality of strength for the hurling of thunderbolts, and his introduction of the measure which he had prepared, which McAdoo had built upon and the President had approved was in itself a magnificent defiance to established privilege.

To begin with, the administration currency measure, to be known as the Owen-Glass Bill, came into Congress against the opposition of the Republicans, who insisted upon regarding it as a partisan piece of legislation. In the House the principal fight against the bill came in committee where the Republicans combined with the radicals and for a time threatened Glass's control of that body. McAdoo, however, insisted upon consideration of the bill as a party measure, and it went to the floor of the House where after perfunctory debate it was passed on September 9th. The greater battle, however, was to be waged in the Senate.

In August the American Bankers' Association had been convened in Chicago for consideration of the measure. A committee of bankers had been appointed

to go before the Senate Committee on Banking and Currency, a newly formed committee of which Senator Owen was chairman. The bankers were instructed on opposition to certain measures of the bill. When hearings started in September it began to appear that the accumulation of witnesses pressed forward by the bankers would choke real action, but the President's declaration that he would hold Congress in session until the bill was acted upon served as a hastening force. As a matter of fact, Congress remained technically in session without stop, the extra session called in April merging into the regular session beginning the first Monday in December.

The Senate Committee, beginning hearings in September of that year, developed in its membership some intensive opposition to the bill. To begin with, the committee was unusual in the fact that it had a membership of twelve, a fact later to complicate the situation by its split of six to six. Three of the Democrats on the committee, Hitchcock of Nebraska, Reed and O'Gorman, joined the Republicans in opposition to the measure, but for differing reasons. With Hitchcock the motive was notably clear-cut. The bill, as it stood, failed to make provision for other than thirty-, forty- and sixty-day commercial paper. The Senator from Nebraska fought for incorporation of four-, five- and six-month agricultural notes, a provision to prove its wisdom in times which followed apace. His battle for the inclusion of the provision was designated to protect the interests of the Nebraska farmers whom he represented, but it also protected the interests of other agricultural states, and in time—when the Senate permitted the evenly divided committee to bring in two separate recommendations

—he won his point through the aid of southern as well as western members. With the other Democratic battlers against the measure the issue was less clear, and it became McAdoo's work to bring them back into the fold as well as to combat attacks from the outside. The President extended to him able assistance, calling at his suggestion a Democratic conference on the measure, and holding personal interviews with the Senators involved until the Rubicon had been crossed. In the meantime a convention of American bankers in Boston had sent delegations to the committee, opposing the Owen-Glass Bill, and Frank A. Vanderlip, President of the National City Bank of New York, had presented to the committee a plan for the establishment of a central reserve bank, a plan which the Republican members of the committee were later to comprise in a substitute form.

In essence the bill introduced by Glass and Owen had three great objects:

To provide, under Federal control, an elastic currency that would expand or contract according to legitimate needs of trade and commerce and prevent so-called panics;

To extend the operations of the national banks to the farmer or agriculturist, excluded from the benefits of the national banking system by the provision in the Banking Act forbidding loans on real estate;

To make the national banks more helpful to commerce, industry and production, instead of fostering, as they had, speculation and monopolies.

The bill provided for the establishment of twelve Reserve Regional District Banks, which would have the power to issue additional notes or currency, obligations of the United States, payable in gold or lawful

money, based upon the notes of merchants, manufacturers or tradesmen. The Reserve Banks would also hold a large part of the reserve of all national banks, would rediscount the commercial paper of the individual banks, and fix the rate of interest upon approval of the Federal Reserve Board, to be charged for such rediscounts. The banks were, however, expressly forbidden to rediscount notes based on stock and bond transactions in Wall Street.

The 7,473 national banks, or as many of them as entered the Reserve system, and as many of the 18,000 banks and trust companies as applied for national charters, were to subscribe for stock in the Federal Reserve Banks to the extent of six per cent. of such bank's paid-up capital and surplus. In addition, each bank was required to keep in the Federal Reserve Bank of its district a small percentage of its deposits.

The provisions of the bill in its final form took care of the question of the mobilization of the reserves of all member banks, thereby keeping them fluid and readily available. It provided for the establishment of foreign branches of Federal Reserve Banks, thereby helping to take care of foreign commerce. It established for the first time in American history an open discount market where commercial bills and paper could be discounted at low rates of interest. It created a system which was to start business with $53,000,000 of capital and in two years have over $400,000,000 of reserves and $200,000,000 of Government funds distributed in such a way as to serve every section of the country directly and conveniently. In other words, it was a measure designed not only to revolutionize the currency methods of the Government of the United States, but also to revolutionize the basis of American

business, giving the man at the bottom a fighting chance against the man at the top of the money pile.

The question of control of the system rose like a great rock in the channel of the bill's passage. The great banking interests, realizing that the public was coming back of the plan, knew that their last stand must be on their ability to hold such control as the Aldrich scheme had promised them. The first proposal of their friends in Congress was that the banks should select the members of the Federal Reserve Board, which was being given full power to fix rediscount interest rates or regulate the elastic currency or Federal Reserve notes, examine the books, and remove officers and directors of any Federal Reserve Bank. This proposition was, in view of its extremity, modified by its advocates, who then contended that the banks should select a majority of the board. As the banks were stockholders in the system, the plea seemed on its face plausible. President Wilson, out of a fear lest the Reserve Board become under wrong executive direction a purely political association, at first favored the plan. McAdoo, however, never wavered in his opposition to it, insisting that private interests had no part in Governmental regulation, and winning the President to his point of view so strongly that the latter told the bankers who waited upon him for furtherance of the proposed plan that no civilized country in the world permitted such interests representation on Government commissions.

As a matter of fact, the control to be exercised over the banks by the Federal Reserve Board was in no way such a radical measure as the great banking systems strove to make the public believe. For fifty years the Secretary of the Treasury had possessed the power to

take every dollar of Federal deposits out of the banks of one city and place them in the banks of another. In 1907 the Secretary of the Treasury, George B. Cortelyou, had upon his sole discretion taken $43,000,000 of the public money out of the vault of the Treasury in Washington and placed every dollar of it in certain New York banks closely related to vast corporate interests. The right of suspension of all the Reserve requirements of the Act for a period of thirty days, vested by the bill in the board, had been held for a half-century by the Comptroller of the Currency. The situation was really that McAdoo was giving to a board of seven men the power that he, as Secretary of the Treasury, had held without opposition, even without question.

The great banking interests, those who had profited by the provisions of the National Banking Act, further contended that the bill involved a tremendous danger of inflation. It was upon this point that Glass in Congress made the broadside attack in his defense of the Federal Reserve which was to do so much toward its passage in the House, showing how the proposed measure guaranteed a gold reserve of forty per cent. and a secondary reserve of one hundred per cent. of sound commercial paper, totaling a security of one hundred and forty per cent. for every dollar of notes to be issued, and also elucidating the fact that the system required three examinations of security, the loaning bank's, the Federal Reserve District Bank's, and the Federal Reserve Board's for final consideration, before currency could be issued on it. He also contended that the freedom of exchanges, saving millions of dollars for the constructive interests of the country, was one of the most important measures of the legislation, and

prophesied months before the beginning of the war in Europe the fact that the system would make panic impossible, even under unusual circumstances.

Writing to the President from New York in May of that year, McAdoo cited to him his conviction "that we have now an exceedingly sensitive situation, which requires very careful and intelligent treatment. The country is on the anxious seat. It is expecting and hoping for a sound currency measure, but even that is going to be more difficult to get if distrust should become pervasive." It became, therefore, part of his job to remove the causes of distrust which were being engendered by the opposing forces, and his statement of June 11, 1913, informing the public of the $500,000,000 available for national bank application to the Treasury, was really part of the foundation work for the pending measure.

The immediate necessity for the issuance of the statement arose from the methods of attack upon the administration by those banking powers whose privileges had been curtailed and stood in danger of being entirely eliminated. From the time of the Secretary's demand that Government deposits should bear interest and the removal of the bank's employee from the office of the Comptroller of the Currency the National City Bank had made a point of attacking the Treasury, not only in its monthly publication but also by statements of its officers. Joseph T. Talbert, Vice-President of the institution, told a conference of western bankers in Detroit in the early part of June that rigid precautions were necessary to prevent a serious stringency in the fall of 1913. In his paper, which he called *A Look at the Facts,* he declared that the whole world was in a condition of financial stringency, and that Europe

would require $500,000,000 in gold to finance her necessities. He told his hearers that New York was the only free market for gold in the world, and that the stock of gold in the Treasury of the United States was an easy prey to the necessities of rival nations. In spite of his declarations the National City had increased its holdings of cash from May 10, 1913, to June 7, 1913, from $47,623,000 to $56,500,000, and by June 11th had achieved a total increase of $28,000,000 in cash holdings, a practical hoarding of that amount. It had reduced its loan account $9,000,000 in the first period, but it had done nothing to give any reassurance to a panicky stock market. The institution and its corollaries did nothing to show that world conditions had really changed for the better. The bankers of the country, believing that they must get whatever aid they could from Wall Street and seeing in Wall Street no tendency to aid them, fell into depression that was seriously affecting business when McAdoo came into the ring with the information that the bankers no longer had to go to Wall Street for aid. The Treasury of the United States had the currency, placed in it by Congress in view of just such an emergency, and stood ready to use it for this purpose. It was an epochal statement, an historic measure of relief. The fact that it was not needed, once its certainty was established, showed how false was the situation Wall Street had created. They had played their hand on a bluff, and McAdoo had called it.

Opposition to the currency measure focused in that June upon the objection, made by the great New York banks, that withdrawal of deposits from the existing reserve center, the Wall Street reservoir, would seriously affect the business of the nation. The de-

posits in the New York banks at that time totaled $1,100,000,000, and under the proposed legislation one-tenth of that amount would be immediately released in New York City. The reserve to be released in Chicago amounted to $36,000,000 and in St. Louis $12,000,000. In addition to this, a considerable release of the five per cent. redemption fund would free a sum that would, plus all the releases projected from the central reserve cities, amount to about $360,000,000, which would then be available for purposes of trade. John Skelton Williams, Assistant Secretary of the Treasury, compiled for McAdoo the statistics of this and of international gold reserves, showing that the total stock of gold of Great Britain and Ireland was $710,000,000, of which a little over one-half was in banks and public treasuries, the rest being in circulation; that the total amount of gold in the German War Fund and in the Imperial Bank of Germany was $205,000,000, that the total gold in the banks and public treasuries of France was $635,000,000, with $565,000,000 more in circulation, and that the stock of gold in Russia was $946,000,000, of which $611,000,000 were in banks and public treasuries. The statement of national banks of the United States showed between $500,000,000 and $600,000,000 of gold, of which $150,000,000 were in gold coin, in April, 1913. And on June 5, 1913, $1,350,000,000 were actually in the vaults of the United States Treasury, making a total of nearly $1,900,000,000 in gold for the United States, exclusive of the gold in circulation outside the banks and treasuries, which on January 1, 1912, had been estimated at $370,000,000, thus answering the charge of threatening panic because of distribution of reserves. In fact, Charles C. Glover, President of the Riggs National

Bank, already grappling with the Treasury over questions of privilege, told Williams on June 7th that McAdoo's plan was "the best of all the plans which he had seen or which he had heard," and declared that if the plan was good for all the country outside the reserve cities, and the only objection was that the banks in those cities would lose deposits, then the objections would fail, since it was the good of the entire country with which Congress is directly concerned, rather than that of the banks in a few of the large centers. "I believe," Williams wrote the Secretary, who was then in New York in conference with some of the presidents of the large banks of the central reserve plan, "that Glover sincerely and honestly believes that your plan will meet the situation and bring the relief and confidence that we need."

In July, in spite of Glover's personal assurance to Williams, the National City Bank of New York issued a booklet on *Pending Banking Legislation* in which it attacked the bill, and stated in conclusion that "the most logical, useful and attractive benefit which could be offered in compensation to national banks in reserve cities would be the privilege of establishing local branches in their own cities, and without this the national system completely loses the special advantages which it has heretofore offered, and, in fact, all advantages whatsoever." And yet on June 12th, the day after the Secretary's announcement of the $500,000,000 for emergency use, the National City had put back into circulation the $28,000,000 it had accumulated during the pressure of the preceding weeks! In July, too, Frank A. Vanderlip, writing to Senator Owen, stated, "The objection is not to the powers granted but to the hands in which they are placed," and asked for "a

board of experienced practical bankers in direct touch with current business."

The objection to the placement of the power in the Reserve Board, which was to consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency—who were to be members ex officio—and five others to be appointed by the President, with the advice and consent of the Senate, became by midsummer the principal obstacle to the bill's passage.

From all points in the country there began to come to McAdoo remarkable indorsement of his program from independent bankers, who realized with his promulgation of credit on June 11th that the interests of the whole people were really their interests and that the Government stood ready to cooperate with them. Seeing that the Federal Reserve Act would free them from bondage to Wall Street, which had served only the larger banking interests, the other bankers poured into the Treasury a steady stream of approbation and commendation for the measure, declaring almost unanimously that they preferred to take their chances with Federal appointees upon the board than with men controlled by great banking interests who would, in the language of one of these outside bankers, "promptly proceed to dominate and disrupt the institution if appointed upon it."

With the turning of the tide of general banking opinion toward the Federal Reserve Act the Wall Street group made a last stand behind political bulwarks, utilizing the old fortifications of party lines to entrench themselves. In the House Glass, with untiring zeal, kept the lines of his committee intact. In the Senate on the Republican side the party leaders of their time,

Lodge, Smoot, Work, Weeks and, greatest of all, Elihu Root, ranged back of the Republican measure, seeing in its possible passage the one chance to break the Democratic lines. Back of Owen, the Senator from Oklahoma who had brought in the bill, were ranged the heavy batteries of Stone of Missouri, the cavalry charges of Shafroth of Colorado, the peppering fire of Lewis of Illinois, the long-range fire of John Sharp Williams, Senator from Mississippi, and the infantry advance of a dozen others. Back of his own position he had the President's assurance that he would hold Congress in session until the currency bill had been passed, a threat destined to have miraculous efficacy against the Fabian policy engineered by Root, who was, by all odds, the most powerful of his party in the Senate.

That it was a struggle against the indifference of certain Democrats as well as against the hostility of their party enemies is revealed in a letter sent by President Wilson to the Secretary on October 11th. The letter, enclosing two letters from Senator John Sharp Williams which the President forwarded with the assurance of his knowledge that McAdoo would wish to discuss with Senator Owen the points his colleague had raised, added, "If all the Senators took the same interest in the matter that Senator Williams does, we should soon have a perfected bill."

The question, naturally raised at the time, concerning Bryan's attitude toward the measure and McAdoo's part in its formulation and furtherance, was practically answered by a letter which the Secretary of State wrote to the Secretary of the Treasury on November 11, 1913, which read:

"My dear Mr. McAdoo:

"I am enclosing a quotation from a speech made by Daniel Webster. It was brought to my attention by Mr. Tyler, a grandson of the President, who is now at the head of William and Mary College at Williamsburg, Virginia. It seems that Aldrich accuses you of following a suggestion made by President Tyler in 1841. If that is true, Webster's defense of it ought to have some weight at this time.

"I am also enclosing an amendment which Senator Shafroth introduced to the currency bill. I do not know that he means to insist upon this, but as I had a few minutes' conversation with him Sunday, I beg to write you a word in regard to his bill. I think it is along the line of a suggestion made by Senator Owen and is, I believe, entirely sound. If we retire the gold certificates we can use the gold as reserve fund and, with security, build upon it twice as large a paper circulation as the gold certificates furnish. I believe it would be a good way to secure such gold as may be needed for the reserve. I can not see any good reason for keeping gold certificates out and at the same time borrowing gold to furnish reserve. I also like the provision in regard to issuing United States notes in the place of national bank circulation retired. It is necessary to substitute something for the national bank circulation; otherwise, there would be a contraction of the currency, and I see no reason why a bank should not be permitted to surrender all of its currency at any time, if it wishes to do so, provided the United States notes to an equal amount are substituted. This saves the United States the interest on the bonds which now form the basis of the currency and, in time, will con-

vert our multiform paper currency into a uniform system.

"And while I am writing to you allow me to refer to one other subject. Shafroth says that the eastern financiers want to eliminate Government notes from the reserves. I believe this would be very objectionable. It would very much increase the strain upon gold and tend to increase its purchasing value. In view of the effort which the financiers are making to prevent the passage of any bill, I doubt very much whether they are acting in good faith in making this suggestion. To adopt it would be likely to cause trouble in the House; it would be inexpedient, therefore, as well as wrong in principle. Pardon me for making suggestion—it is not in my department—but I am keenly interested in getting a bill through which will work successfully and I fear that this banker's suggestion is intended to handicap the measure in operation if not to prevent its passage.

"Very truly yours,
(Signed) "W. J. BRYAN."

The quotation from Webster, forwarded by Bryan, had been taken from the speech delivered on September 30, 1842, at Faneuil Hall, and read: "The subject of the currency has been the study of my life. . . . I take the responsibility of saying that the measure submitted to Congress (the exchequer) was the best and only measure for the adoption of Congress and trial by the people. I am ready to stake my reputation—and it is all I have to stake—upon it, that if the Whig Congress take the measure, and give it a fair trial for three years, it will be admitted by the whole American

people to have proved the most beneficial institution ever established, the Constitution only excepted."

Even a chronological account of the hours of McAdoo's days in those months of his office could not adequately narrate the labors involved in his work for the passage of the Act. He received and read tens of thousands of letters and telegrams from every point in the country. No point was too small to merit his consideration, no caller too humble to be denied. He held sessions with Members of Congress and with Senators. He conferred with the President almost nightly, a reason for the lack of correspondence between them except on minor points of executive procedure. Anything but a recluse, he was keeping up the duties of his official position in the social activities involved, but he never allowed it, either by time encroachment or by more subtle moral encroachment, to impinge upon his essential duty of securing the currency reform for which the people of the nation were waiting. He made for and distributed ammunition to the Senators and Representatives on the firing lines. His letters to them are among the clearest and most definite contributions to the history of finance, for he had a way of clearing the woods when he swung in upon a problem. His memoranda for use against the specious arguments of the opposition drive straight to the points at issue. In them he exhibited that quality of foresight which was to distinguish so much of his official service. Tirelessly he piled up the stones of the wall which was designed to hold off the attacking force when in December the Owen-Glass Bill came for final consideration to the Capitol.

On the thirteenth of December the attack on the measure culminated with the speech made by Elihu

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Root. The speech, by no means one of Root's ablest, nevertheless concentrated within its outlines the high points of opposition to the Federal Reserve Act. With a certain swift plausibility he set forth his arguments, forging toward their crux, insistence that the Act substituted a paternalism of government for self-dependence. With a cleverness not the less brilliant for its speciousness he swung entirely away from the main issue—the substitution of twelve district banks for one central bank and the power of a board of seven men for the power of one man—and construed the act as a subversion of the Jeffersonian principle that the best government was the one which governed least. He presented an array of figures, purporting to be facts, and it was upon these, even more than upon his platitudes of misconstruction, that McAdoo directed answer.

In his review of Senator Root's attack—contained in a letter sent to Senator Owen the following day—the Secretary riddled the most important statements of the Senator from New York. He showed the falsity of the premises, breaking down thereby the whole line of attack. Senator Owen, leading the administration forces in the Senate on succeeding days, blazed away at the Root assertions while McAdoo, watching the battle from headquarters, sallied forth time and again to strengthen, wherever possible, the wings of the army. Day and night the conflict waged beneath the Dome which has covered so many great party combats. Day and night the struggle for supremacy between the elected forces of the American people and the selected forces of plutocracy went on until the day of final battle arrived. Then, as wars so often do, it ended almost abruptly. On the twenty-third of December,

1913, the Federal Reserve Act, taking power of financial supremacy from the great interests of Wall Street and returning them to the hands of the people at large, was passed by the Senate and House of Representatives.

On the twenty-seventh of December President Wilson wrote to McAdoo from Pass Christian:

"My dear McAdoo:

"All here join in sending the warmest holiday greetings to you and yours.

"Your letter of December twenty-third was very generous and gives me a great deal larger share of the credit for the currency legislation than is at all due me. In looking back upon those months of struggle, I realize how absolutely indispensable and invaluable the part was which you, yourself, played. I think that Owen and Glass would agree with me that without your constant guidance and mediation the task would have been well-nigh impossible, and I am sure they would join with me in the warm and deep admiration and gratitude which I feel for the part which you, yourself, played. I am sure they would also feel as I do an immense satisfaction that the organization of the new system is to be so largely in your hands.

"With warmest regard, always,

"Cordially and faithfully yours,

(Signed) "WOODROW WILSON."

On January 1, 1914, Bryan wrote:

"My dear Mr. McAdoo:

"May the New Year bring you as much happiness as the year just closed. I could not wish you more,

for since March you have covered yourself with glory and filled your friends with pride. It has been a delight to be associated with you, my dear fellow, and my wife joins me in hearty good wishes for yourself and all your family.

"Affectionately yours,
(Signed) "W. J. BRYAN."

The constant and watchful efforts of the Secretary had not ended at the gateway of progress. As if in prescience of that wave of war which was to sweep across the world he had secured a provision from Congress for the extension until June, 1915, of operation of the Aldrich-Vreeland Act, which was due to expire in June, 1914. The Federal Reserve Banks were not to go into operation until October, 1914, and had it not been for McAdoo's forethought the beginning of the great war in Europe would have found the United States unprepared for the emergency. Unknowing the danger, he had built the dike, even at the moment of winning the first great struggle of his public office. The flood was to come, but not to inundate.

CHAPTER VI

Moving the Nation's Crops

"IT is a strange thing," McAdoo wrote more than two years after he had left office, "that throughout American history so little constructive and comprehensive work has been done to conserve the agricultural industry of the country. This industry is absolutely vital to the existence and prosperity of the people. Farmers as a class do not want superior advantages or benefits conferred upon them by legislation. They do want equal opportunity, and to get that equal opportunity they must have sufficient credit facilities at all times, and these must be available to them on as reasonable terms and at as low rates of interest as are allowed to our business men and manufacturers, due regard being had, of course, for the security offered and to the conditions applicable to each. In other words, agricultural credit should be as available as commercial credit, and upon equally favorable terms, all things considered."

The pronouncement set forth as introduction to A. C. Wiprud's *The Federal Farm Loan System in Operation* incorporates the political philosophy which the Secretary of the Treasury brought to the subject when he assumed the post, and which he found no reason to change in his experience there. The circumstances of his childhood had brought him in such close touch with the problem of the farmer who was debarred from equal economic opportunity by credit restriction that the thought of the difficulties of the agricultural group lay in his heart as well as on his brain, and he took up the problem, as it touched upon his department, with

a knowledge of the agriculturist's needs rather than with any theoretical ideal of amelioration.

The association between the Treasury and the American farmer was—when McAdoo became Secretary—tangent at one point, and that one of doubtful benefit to the tiller of the soil. Every year the harvesting and transportation of crops required the release of millions of dollars of credits from the banks of the nation to the farmers. Had this money been in the local banks of agricultural communities the rate of interest would have been that of usual local transactions. The money, however, had flowed from the country banks to the great banking reservoir of New York City, remaining there for use in Wall Street speculation and for the promotion of great corporations. When the country banks found it necessary to call for money for use in the annual harvesting and crop-moving Wall Street determined the rate of interest to the country banks, and the country banks, in turn, had to add their own interest rate in giving the loan to the farmer. Every year the country was threatened with financial stringency as a result of the intention and effort of the New York banks to secure the highest possible rate of interest from the rural banks. Every year the farmers of the country passed through a period of uncertainty, ending with higher interest payments. The situation was financially and socially wrong, and was intensified by the fact that it had been the custom of the Treasury to deposit Government funds in its possession at that time in the New York banks, not in the country institutions.

Year after year the money power of the New York banks had been drawn tighter at crop-moving time, and 1913, made tenser by the opposition of Wall

Street to the Democratic administration, came into summer with a threat of panic. The money tightness which had been overcome by the Secretary's announcement of the $500,000,000 reserve fund, open to applicant national banks, had overshadowed the fields of the nation. The farmer was confronted by what seemed an inevitable repetition of his experience of many years, the necessity of cutting down his just profits by payment of inflated interest for the use of crop-moving money. That the rate of interest was frequently usurious can not be doubted in the face of the later evidence presented to the Government agency which grew out of McAdoo's relief measures, the Farm Loan Board. Testimony afterward given showed that in some instances the farmers of Texas and Oklahoma were paying as high as twenty per cent. interest for short-time loans, and that in practically all cases the interest rate had been lifted by the existing method of operation between country banks and Wall Street institutions. It was at this juncture, with no apparent relief possible to the agriculturalist, that McAdoo acted.

In July, 1913, he called to the Treasury committees representing the clearing-houses of all the banks in the crop-moving centers of the country. From these men he ascertained the actual sectional necessities. From their testimony he saw the danger of a repetition of the panic of 1907. Tight money was imminent.

On July 31st he made the announcement that, to facilitate the movement and marketing of the unusually large crops then beginning to be harvested, he had determined to transfer from the Treasury to the national banks in the West and South, where such funds could be most advantageously placed for the

purpose, between twenty-five million and fifty million dollars.

In order to make these special deposits available to the banks for securities readily within their reach the measure provided for the acceptance by the Treasury of high-class prime commercial paper in addition to Government, approved state, municipal and other bonds. The commercial paper had to be submitted first to the clearing-house committees of the cities in which the banks offering it were located, and had to be finally passed upon for acceptance or rejection by the Secretary himself. As security for such deposits Government bonds were accepted at par, other bonds at seventy-five per cent. of their market value, and approved commercial paper at sixty-five per cent. of its face value.

The Government charged interest at the rate of two per cent. per annum on these deposits. The money was to be returned to the Treasury after the crops had been moved. It was the suggestion of the bankers that fifteen per cent. of it be repaid in December, 1913; thirty per cent. in January; thirty per cent. in February; and twenty-five per cent. in March, 1914.

The acceptance of commercial paper for security was at that time revolutionary, but, without it, the announcement would have been mere words. Had the Secretary insisted upon United States bonds, as had been the invariable Treasury custom, the banks would have had to go into the market and buy the bonds, which would have advanced to prohibitively high figures. The relief would have been nullified. As a matter of fact, the moment it became known to the country that the Government stood ready to assist the farmer, the tension was loosened, and the money market re-

turned to normal. The banks in the involved sections found it necessary to borrow only $37,386,000 from the Government, although the Secretary denoted his willingness to have $150,000,000 advanced, if it became necessary.

Coupled with the legislation for the Federal Reserve, the Secretary's action in taking from the centralized banks of New York the established privilege of being sole agency for advancing great sums of money for crop-moving purposes started the swing of the pendulum away from financial concentration of power. The proclamation of 1913 and its successor, the proclamation of 1914, coming at a time when the world trembled from the shock of declared warfare in Europe, paved the way for improved agrarian legislation and started the foundations for the Farm Loan Board, a measure that was to carry the American farmer through times that would have been otherwise disastrous.

CHAPTER VII

The World Moves on to War

ON the twenty-sixth of December, 1913, three days after the passage of the Federal Reserve Act, and six months before the assassination of an Austrian Archduke was to precipitate that series of events which finally brought the United States into the vortex of a great European war, the Secretary of the Treasury called the first meeting of the Organization Committee of the Federal Reserve System, and started the wheels of that machinery which was to save the American nation from financial wreck in the approaching storms of international conflict. Upon the certainty of the Act's operation, with its liberation of American finance from the tribute previously paid to old powers of privilege, hinged the national integrity of the United States in the crisis of the coming August; and public knowledge of the eminent justice of the new measure bulwarked American fiscal operation through the waves of World War. Had it not been for the writing of the Federal Reserve upon the statutes in 1913, the people of the United States would have suffered in the following year inevitable panic, for the money powers of the New York financial district would inevitably have tightened money at the very time when tight money would be disastrous to American agriculture and American commerce. The passage of the Act came at a peculiarly providential time, and the speeding of its establishment seemed not less foreordained.

The establishment of the system was accomplished with difficulties both above and below the surface. The

battle against the reserve, waged by its enemies in Congress and out of it, had its psychological effect.

The memory of the charges made against it by Representative Willis, of Ohio, afterward Governor of his state, by Senator Burton, and, especially, by Elihu Root, rankled in the minds of many to whom the measure represented not a financial reform but a partisan cataclysm. Root's attack of December 13, 1913, "I say that this bill presents the financial heresy twice repudiated by the people of the United States. I say that the Central Reserve Board, appointed under this bill, will have to represent this very heresy. If this bill passes as it stands, America stands to lose all we saved when Grant vetoed the Inflation Bill, all we saved when Grover Cleveland abolished the Silver Purchase, all the Gold Democrats saved when they helped us in the repudiation of the vital principle which has been put into this bill," echoed through the corridors of banking institutions, reverberating warning against acceptance of the terms of the new system. In spite of the calamity howlers, however, farmers, merchants, and business men outside the old central district area began to realize that the Federal Reserve was their one chance of loosing the shackles of a money market that demanded of them anywhere from six to twelve per cent., and brought moral pressure upon their banks, which, in turn, began to see that they were also likely to benefit by the change. Municipalities glimpsed improvement for themselves in the law. Trust edged out the distrust formulated and spread by the old Wall Street interests, and kept alive by partisan opposition in Congress. The ball of progress moved onward.

The growth of confidence in the Act was due not only to the measure itself but to the zest with which Mc-

Adoo pushed its organization. In a letter to Paul M. Warburg, written December 29, 1913, he stated, "Where there exists, as in this case, such an immense variety of conflicting opinion it would be expecting too much to believe that a perfect measure would be possible at the outset. I am quite sure that any needed changes which time and experience may prove to be necessary will be secured. The task ahead of me and the Organization Committee is a great one, but I shall tackle it with all the enthusiasm and power that I possess, and shall do my utmost, with the other members of the committee, to organize the new system from the highest standpoint of patriotism and good for our country."

Although the country had been made conversant with the controversy which raged about the passage of the law, the Secretary found one of his greatest difficulties a lack of understanding of the law's benefits by the very people designed to profit most from its provisions. Basically, the Federal Reserve Act was a legal proclamation of financial emancipation for the butcher, the baker, the candlestick-maker; but they were almost the last to apprehend and appreciate the benefits its passage conferred. As Stevenson has said, "Man lives not by bread alone, but by catchwords," and McAdoo's work had been singularly free from the platitudes of the professional politician. It was necessary, first of all, to broadcast the essentials of the law, explaining it, first of all, to the bankers whose banks were eligible to entrance in the system, and through them, to the general public. Had McAdoo been demagogic, he would have made his statements directly to the public in that time; but he was too concerned with the work of actual organization to waste time in

statements that did not seem to him actually necessary at that juncture of events.

Broadly, the Federal Reserve Act provided that the country be divided into not less than eight and not more than twelve financial districts, these to be determined, with their Federal Reserve cities, by the Organization Committee, which consisted of the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency; that all national banks must become members of the system under pain of losing their national charters for failure to qualify within a year; that within thirty days after receiving notice banks must subscribe six per cent. of their capital and surplus to the capital of the reserve banks, one-sixth to be payable on call, one-sixth to be payable within three months, one-sixth to be payable within six months, and the remainder subject to call; that shareholders of a reserve bank were to be held responsible individually; that no one other than a bank should hold more than $25,000 stock in a reserve bank, and that stock held by others than banks had no voting power; that the United States should subscribe if the banks did not raise sufficient capital; that no reserve bank should start with a capital of less than $4,000,000; and that each reserve bank should establish branches in its district. The Act further provided that application for a reserve bank be filed with the Comptroller of the Currency by at least five banks in each district, and that an organization certificate, issued by him, gave a bank power to adopt a corporate seal, to have a twenty-year franchise, to make contracts, to have entity before law, to appoint officers not enumerated by the Act itself, and to deposit Government bonds and receive circulating notes from the

Comptroller of the Currency. The Board of Directors of a reserve bank was to consist of three classes, three members being chosen by member banks, three representing commerce, agriculture and some other pursuit, and three to be designated by the Federal Reserve Board. Stockholders were to receive six per cent. cumulative dividend on earnings, the expenses of the reserve bank to be excepted, and the remainder to go to the Government. The Secretary of the Treasury was given the power to use the net earnings to the Government to add to the gold reserve or to be used in liquidating the bonded debt; state banks could, under certain conditions, become member banks of the Federal Reserve.

For administration the Act was to have a Federal Reserve Board, consisting of seven members, the Secretary of the Treasury and the Comptroller of the Currency acting ex officio, and the other five to be appointed by the President with the consent of the Senate. No member of the board was to be connected with any bank, but at least two members were required to be experienced in banking. The board was to report annually to the Speaker of the House of Representatives, and had power to examine federal banks and issue weekly statements; to permit or require one reserve bank to rediscount for another; to suspend for not over thirty days the reserve requirements; to supervise the issue and retirement of reserve notes; to add to the number of reserve and central reserve cities; to suspend or remove any officer or director of a reserve bank; to require bonds for the writing-off of any worthless assets of a reserve bank; to require bonds of reserve agents; to suspend, for cause, or operate a reserve bank; to exercise general supervision; and to permit

national banks to act as trustees, executors, administrators and registrars of stocks and bonds.

By the law Federal Reserve Banks were granted power to receive deposits from member banks; to receive deposits from the United States; to receive deposits from other reserve banks; to discount notes of member banks growing out of commercial transactions; to discount acceptances indorsed by a member bank, the amount of such acceptances not to exceed one-half of capital of member bank, the amount of notes of any one person not to exceed one-tenth of capital and surplus of member bank, and the amount of commercial notes not to exceed one-half paid-up capital and surplus of member bank; and to restrict the liability of member banks. A reserve bank could purchase in the open market cable transfers, banker's acceptances, and bills of exchange, and had power to deal in gold coin and bullion, to buy and sell notes of certain kinds, to buy and sell bills of exchange, to establish rates of discount, and to establish exchange accounts both at home and abroad. Reserve banks were also to be public depositaries and fiscal agents under direction of the Secretary of the Treasury, could issue reserve notes to reserve banks, and clear checks with member and other Federal Reserve Banks.

The act designated the percentage of reserves for city and country banks, and provided for Federal Reserve bank examinations by the Federal Reserve Board. It also provided that any country or reserve city bank could make farm loans, but such loans could not be made by central reserve city banks, could not be made for a longer time than five years, could not exceed fifty per cent. of the value of the land, nor twenty-five per cent. of the loaning bank's capital and surplus. Foreign

branches might be established by a member bank with capital exceeding $1,000,000, upon application to the Federal Reserve Board.

The latitude of the Act, with its nicely calculated adjustment of checks and balances, made its establishment the more difficult. It was a titan's task which McAdoo faced at the first meeting of the Organization Committee, which, with the Senate's ratification of John Skelton Williams as Comptroller of the Currency still pending, had to consist of the Secretary of Agriculture, David F. Houston, and himself. The committee's first measure was immediate forwarding to all national and state banks and to all trust companies of the United States copies of the law, together with the form of application for membership in the Federal Reserve System. The committee then determined upon hearings in the various important cities of the country for the purpose of securing the views of bankers and business men as to the division of the country into Federal Reserve districts, and the location in each district of the head office of the Federal Reserve Bank of that geographical division.

Before the beginning of the hearings, two weeks after the passage of the Act, 1,280 national banks in forty-five states had signified their intention of joining the Federal Reserve System.

By the twenty-fourth of February, 1914, 7,465 out of a total of 7,493 national banks in the United States had accepted the provisions of the Act, and had signified their intention to subscribe to the capital stock of the Federal Reserve Banks to be organized. Even with the determination of the personnel of the Reserve Board still pending, the system was already well launched, though it became evident that it could not

be in actual operation before the autumn of that year.

The hearings, held in various important cities of the country during January and February, not only discovered for the Government the needs and trend of the sections but also established between the banks and the Treasury a relationship that was destined to be the basis of McAdoo's great war financing. His personality did much to break down the barrier of prejudice which had been created by the interest whom he had overthrown. Men who had clung to the old system simply because it was an old system discovered in talk with him that there was nothing basically anarchistic in the new, and nothing destructive to be feared in its operation. They presented their cases to him, apprehending in him a man who knew their problems better than he knew the so-called practical politics of the office-holder. Even in a difficult position of having to choose not more than twelve cities out of twenty-five applicants, he made practically no enemies on local issues, for in every case he demonstrated to all the claimants the reasons which had led the committee to give preference to the cities finally chosen: New York, Boston, Philadelphia, Richmond, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, Minneapolis, Dallas and San Francisco.

In the determination of the reserve cities McAdoo did not forget that the heart of the financial problem was the decentralization of the reserve. To that end he held New England intact—except for the one Connecticut county which logically belonged by its industrial interests with the New York district, and divorced Philadelphia and its environs from the New York power.

He also placed Pittsburgh in the Cleveland District, placing a branch of the Reserve Bank in the Pennsylvania city, in order that the Philadelphia bank might have no overweening balance of money. It was, however, by the basic needs of the community itself, by and large, that the choice of reserve districts and reserve cities was made. The fact that great political power in his own party was thrown toward the choice of certain cities which he found it wise to decide against for the general public weal revealed in him for the first time in his office the quality of rising above party on national issues. Throughout the hearings he listened to all sides, asked questions and answered them, measured men, events and conditions, then went into session for final judgment.

New York, desiring no financial system other than that of the Aldrich Central Bank, by which it made all minor banks subsidiary and tributary to the Wall Street power, fought all regional division, but most particularly the division of the northeastern section of the United States. Other battles piled up in attempts of various interests to eliminate Dallas, Minneapolis, Kansas City and Atlanta as reserve centers. Even among McAdoo's own friends there were those who upheld the desirability of eight instead of twelve reserve cities, but through it all he held to the need of having the largest number allowed by the law. With a foresight that later development was to justify, he maintained the moral need of eleven checks against the encroachments of a great central money power, insisting that the local pride of the sections represented would prove a barrier for the general public protection, even when a weak Secretary of the Treasury should have inclination to favor the great New York banks.

Through a maze of local claims and counter-claims which complicated the situation of opposition McAdoo had to thread his way, choosing and rejecting, balancing and counter-balancing. Knowing that the success of the ideal depended upon his judgment in handling these initial situations quite as much as it did upon the principle of control involved, he trod on eggshells of local prejudice in the making of decisions. It reveals the character of his justice as well as his tact that when on the second of April the committee made its report of choice, in spite of the chagrin of certain cities which had to be refused, the country at large accepted it unquestioningly.

On the seventeenth of March he reported to the President: "I send you herewith a memorandum giving the successive steps which must be taken in the organization of the Federal Reserve Banks. From this you will see that it is possible to effect the actual incorporation of these banks by May 15th, at which time the Comptroller of the Currency may issue a certificate or charter. The Federal Reserve Board may, in that event, be appointed any time after May 15th. To perfect the organization of these banks, with the selection of directors, officers, etc., will carry the matter up to August 1st; then each bank will have to find suitable offices, install the necessary vaults, etc. At least sixty days, I should think, would be required for this work. This will indicate October 1st as the date when the banks may be able to begin actual business. By that time the first installment of their subscriptions may be made payable. This would make available about $18,000,000 of actual capital for the combined banks at the start. The law provides that an additional one-sixth may be called within three

months, and another within six months after the first call, and the remaining three-sixths upon call of the Federal Reserve Board.

"I think it will be much better not to require the payment of any subscription earlier, in any case, than the first of October, because it will not be wise to force the shifting of too much money from the member banks throughout the country to the reserve banks at that time of the year, when the crop-moving demands are always highest. This would make no difference if the reserve banks were in position to rediscount promptly paper for the member banks, but as the machinery will be new and not in effective working order, the chance is that the funds might be tied up or made difficult of access at the most inopportune time of the year.

"My feeling is that the crop-moving situation can be handled again best by the Treasury Department. We shall have the money to do it, notwithstanding the lugubrious prophecies that are being made in some quarters, since the corporation taxes and the income tax, amounting to possibly seventy-five or eighty millions of dollars, will be paid into the Treasury about July 1st. I am positive that the Department can handle the situation"—note the prescience of what follows—"*unless some cataclysmic situation should unexpectedly develop.* I have already made public announcement that the department will again aid the crop-movement if the reserve banks are not sufficiently organized. Again, the Aldrich-Vreeland Act has been amended in such manner that its benefits can be availed of this fall if it should become necessary, although I do not anticipate any such necessity."

On April 8th every eligible bank in the United

States was notified that subscription for stock in the Federal Reserve Banks must be sent to the Committee within thirty days thereafter. Instructions relative to the election of Class A and Class B directors were issued on May 6th, and on May 11th the Organization Committee designated the banks in each district which were to execute the organization certificates of the several Federal Reserve Banks. On May 18th and May 20th the organization certificates were issued to the twelve Federal Reserve Banks of the United States.

Even with the banks brought to this point of organization the struggle against the Secretary's idea of distribution of financial power continued. The New York group, variously designated as Wall Street and the Clearing-House Ring, attempted to nullify the provisions of the Act which related to the voting of member banks by groups, and tried to bring about a selection of all the Class A and Class B directors of the New York District by their own inner circle. This circle held on May 19th a meeting, purporting to be a session of all the member banks of Group One of that regional reserve district, but in reality a gathering of a few insiders. At a dinner that night, attended by some of the leading bank presidents of New York, the boast was made that the inner group was prepared to control the election of the six directors of the district by quick movement and the presentation of a slate nominated by supposedly representative nominating committees of the three groups. This would have thrown out all chance of real representation for the up-state country banks who wanted to be saved from the Wall Street domination, but who were weak and helpless before the power of its agents.

McAdoo, informed of the situation, sent a Treasury official to the meeting of May 26th, apparently to explain the voting method of the new system, but in reality to supervise the nominations. In the meantime H. Parker Willis, Secretary for the Organization Committee, served notice that the committee would permit no bank to organize unless the election of directors had been in accordance with the spirit of the Act. Reinforced by the Secretary's action, the country banks kicked over the Wall Street traces, and elected directors really representative of their own group.

On the fifteenth of June President Wilson sent to the United States Senate nominations of the five members of the Federal Reserve Board, the Secretary of the Treasury and the Comptroller of the Currency being already ex officio members of the body. Had the Senate confirmed these appointments at that time, the national nucleus of the bank would have been organized, as McAdoo had informed the President in March, by the first of August, and the outbreak of the European conflict would have found the system established. As it was, the opposition of the Republican members of the Senate forced the country into a situation that would have been precarious, had it not been for McAdoo's foresight in extending the time for expiration of the Aldrich-Vreeland Act. The nominations of Charles S. Hamlin, A. C. Miller and W. P. G. Harding were not confirmed until July 6th, while the nominations of Paul M. Warburg and F. A. Delano were not confirmed until August 7, 1914, seven days after the beginning of war in Europe.

The delay of the Senate in confirming the President's nominations threw back the work of intensive organization, but did not prevent McAdoo from taking

those precautionary measures which were to bulwark the country when the shock of the conflict came.

On the twenty-ninth of June—the day after the murder of Archduke Francis Ferdinand and his wife at Sarajevo—the Secretary of the Treasury issued to all national banks, already registered into membership of the coming Federal Reserve System, a questionnaire concerning the country's necessities of funds for moving the crop of 1914, which promised to be one of the great ones of the nation. The action was, he afterward stated, in no way interrelated to the course of European events except as a general stabilizer of financial conditions.

On the first of July he issued an annual report, a reassuring document showing the revenues and disbursements of the Treasury. On the thirteenth of July, in an interview given to the *New York World*, he announced that the Federal Reserve System would be in operation in time to give material help to the crop-moving, and also that, with wise administration, which he deemed certain, the Federal Reserve System would prevent any financial panic. "The able American mind is not yet obsolete," he stated, "and patriotism is not yet dead." Admitting that the "divine right" and the "vested right" interests were in no way discouraging a calamity campaign which was already disturbing the improving course of business, he voiced his faith that they would not be able to overcome the momentum of progress, and cited instance after instance of strengthened fiscal conditions in the nation. One of the points of the interview which was to become most significant in the light of later events was McAdoo's statement that the chief depression of that time in the United States existed "in those businesses

and industries which are dependent largely upon the railroads for orders. There is no doubt about the fact that the railroads have withheld orders for supplies and have deferred maintenance of way and equipment to the utmost possible extent for the past six months. I do not say that this is illegitimate. They have been suffering from reduced earning during this period, and caution would induce many of them to proceed slowly; but the great impelling motive undoubtedly has been their desire to make as few commitments as possible until the Interstate Commerce Commission has rendered its decision on their application for increase in rates." In spite of "disaster doctors," who had been, he declared, "working overtime to make the nation sick," he announced prosperity unavoidable, and flung out a guerdon that fate was soon to challenge, "We can face the future with absolute confidence."

On the twenty-fifth of July, two days after the Minister of Austria-Hungary to Serbia had demanded his passports and left Belgrade, McAdoo announced that he would deposit $34,000,000 of Government funds in certain designated banks throughout the country for crop-moving and other legitimate business purposes. He cited the crop situation in various sections, and stated that, if more money were necessary, he should not hesitate to use it. It was, in view of the circumstances of the rising of the war clouds, a banner flung out on the walls, a reassurance to the man in the street and the man in the fields, to the man in the factory and at the desk, that the Government of the United States stood ready in the impending crisis to give material, just aid to its citizens. The Federal Reserve Act had emancipated the American public from the thraldom of the barons. The Secretary of

the Treasury went further, and gave the freedman all that real freedom ever asks, the tools of self-help.

As President Wilson said of the situation, "The instrumentalities of control have been destroyed." In a little more than a year's time in office the Secretary of the Treasury had definitely and decisively ousted privilege from the seats of power. He had flung out its lares and penates from the hearthstone of the public Treasury, he had broken down its system, and, better, established another system which, while it was to remain under his direction, they could not capture. He had awakened the nation to the real issue involved. He had rebuilt the institution he captained to the point where it was ready to resist the tornado. Conjecture is, at best, an inexact science, but it is not beyond absolute reason to say that, had it not been for McAdoo's fight of 1913 and 1914 against the interests involved in the struggle, the American nation would have suffered grievously in the week that followed, and for long weeks thereafter. The great New York financial groups, pressed for money for foreign alignments, would have pressed back upon the country, and disaster followed disaster.

"There has been going on since I have had this office," McAdoo wrote of that time in a letter to the Honorable Frederic C. Howe, "a titanic struggle with certain selfish interests in this country, a struggle which, in the interest of the people of the country it is just as essential that we who are here and charged with the responsibility should make as it was to fight the War of 1861 for the preservation of the Union. . . . Apparently discouraging results do not discourage me in the least. They only renew my zest and increase my determination to continue the fight for the eradica-

tion of grave abuses and to establish the rights of the people in such impregnable form that they may be able to resist more effectively in the future the aggressions and abuses of privilege."

The relationship between McAdoo and Wilson, from its inception a friendship of remarkable quality based upon the desire of both men to promote the general welfare by the establishment of certain fundamental principles of democracy, was intensified by the Secretary's marriage in May, 1914, to the President's youngest daughter, Eleanor Randolph Wilson. Out of an over-sensitive regard for the proprieties, McAdoo offered, when he became engaged to Miss Wilson, his resignation from office, an offer immediately refused by the President who, in spite of his own tendency to bend backward where any relationships, family or merely friendly, in any way touched his public office, wisely decided that the country could not spare McAdoo's service in the Treasury because of any involving of family connections with himself. The marriage, taking place a little while before the outbreak of the European War, brought the two men into an association which has few if any parallels in public life.

In the outside world, particularly in that world immediately outside, the presumption sprang into being that Wilson and McAdoo merged their interests as one. The President's son-in-law was supposed to be the President's adviser on all state secrets. Jackson's long-famed Kitchen Cabinet became innocuous in comparison with the Washington inference of Wilson's Library Cabinet, composed of McAdoo and himself. As a matter of fact—fact borne out by extraneous evidence as well as by McAdoo's own statement—both men sedulously refrained from discussion of any topic

which could conceivably be construed as affecting the work of any department in the Cabinet but the Treasury; and Treasury discussions were far rarer than would have seemed likely to the railbirds of the capital. McAdoo's detailed and graphic letters to the President, written in a time when correspondence between two men of the same family would have seemed superfluous, support his statement that he took up state affairs with Wilson only through the ordinary channels of communication. Out of a fear that their relationship might be considered as giving the Secretary of the Treasury an advantage over his fellow-officers in the Cabinet, both men refrained from what had been the ordinary intercourse of their earlier friendship. In some ways this was a disadvantage for the nation, in others a genuine advantage. Wilson and McAdoo made their decisions independently, correlating them only in their official capacities. Their reserve did not break the spiritual sympathy between the two men who were to share the nation's burdens in one of its most portentous crises. In the silence of sentries, as the clouds in eastern Europe grew darker, the President and the Secretary of the Treasury took their watching posts. Even if they could not foresee the breadth of the war which was to engulf the United States in its maelstrom, they went on guard in those first hours of danger for the land they had sworn to protect.

The serious illness of the President's wife—Mrs. Wilson died two days after England went to war with Germany—constituted, however, between the two silent men a new bond in friendship. The long hours through which they waited for that ray of hope which never came forged ties of understanding between them which was to bear fruit for a stricken world. Through

watches of personal emotion their kinship was welded into an instrument of general good. Sentries, wakeful over tragedy of their own, they saw the fires of war leap from the far horizons.

On the twenty-ninth of July Austria-Hungary declared war on Serbia; the British fleet began to concentrate, Belgium proceeded to mobilize, Germany called in her High Sea fleet, Russia rushed her troops to the southern borders of her Empire, and France waited the bugle to the tri-color. While the clouds of war threatened destruction upon a world that had deluded itself with thought of universal peace, two men who were in time to end the great conflict and rescue Occidental civilization from the chaos of slaughter sat in a library in the White House, overlooking the dark line of the Virginia hills, and planned through the night to keep their country from the scourge of war. Not till the dawn came out of the Maryland fields did Woodrow Wilson and William Gibbs McAdoo give up their vigil; but with the dawn had come the four horsemen.

BOOK TWO

1914 — 1917

CHAPTER I

The Backwash of War

THE TREASURY HOLDS THE DIKES

THE shock of war in Europe, feared though it had been by the prophets reading the handwriting on the wall of bond transactions, ran through the financial world with the shuddering force of a temblor.

On Thursday, the thirtieth of July, the day when Sir Edward Grey rejected for Great Britain the proposal of the German chancellor, Von Bethmann-Hollweg, for British neutrality in the event of the invasion of Belgium, the New York Stock Exchange closed, following the action of the exchanges in London, Paris and Berlin. The suspension of communication with Europe, involving the temporary breakdown of the export trade and the collapse of the financial markets, with resultant shock to the credit system, affected the United States directly and profoundly. In the central reserve cities of New York, Chicago and St. Louis arose an anxiety which, had it not been allayed by prompt and effective action by the Secretary of the Treasury, would have culminated in general financial disorganization.

On the thirty-first of July, however, when Germany issued to Russia demand for immediate demobilization and moved three army corps close to the French border, the Secretary of the Treasury announced that his department was keeping in close touch with the situation, and would help, as far as it legitimately could, to alleviate the danger to the United States. The Aldrich-Vreeland Act, as amended by the Federal Reserve Act, was still in force. There was in the Treasury $500,000,000 of emergency currency printed

and ready for use under that law. The amending provision, which lowered the interest rate for the borrowing bank from the burdensome percentages of the original bill, made McAdoo's task, while difficult, possible. Without it and the later amendments which he secured during the hectic week which followed, the Aldrich-Vreeland Act would have been as absurdly impotent to give relief to the country as it had been inadequate during the crop-moving times of money tightness between 1908 and 1913.

The Secretary's declaration that the Treasury stood ready to distribute $500,000,000 to the banks under the provision of the existing law was the first definite assurance of relief. Even this announcement was hampered by the provision of the original law that this amount had to be prorated among the states, and the effect in New York City was not marked. On August 1st the presidents of two of the most important banks there went to Washington to confer with McAdoo on the critical situation. With the Secretary and the Comptroller of the Currency they went over the phase, present and future, of the difficulties faced by the financial institutions of the United States, presenting, in particular, the dangers of the larger and more important banks of the metropolis.

It was the day when Germany declared war on Russia, when Great Britain called out her naval reserves, when Belgium prepared her refusal of the German demand of free passage through her territory, and the world tottered on the brink of the war which had been threatening Europe for nearly a score of years. The President of the United States, watching the conflict from the conning tower of his position, had to rise above personal sorrows to perform the duties of his

office, and charted that course of neutrality which his ship was to follow until driven out of it by German aggression. The Secretary of the Treasury held steadfastly to the work of closing down the hatches against the threatening hurricane. On that day he made immediately available the funds for crop-moving, and also directed another action which was to bear even speedier fruit.

The New York bankers returned to their own city on the evening of August 1st, the day of their conference with the Secretary. On Sunday, August 2nd, the situation had grown more serious, and they telephoned to McAdoo an urgent request to go to New York to attend a meeting on that evening of the bank and trust presidents of the city. The Secretary promised attendance, designating the Vanderbilt Hotel as the place of conference, and left for New York with John Skelton Williams, Comptroller of the Currency, and Charles S. Hamlin, then an Assistant Secretary of the Treasury, and already appointed to membership on the Federal Reserve Board, although he had not yet taken the oath of office.

The Vanderbilt Hotel conference, attended by these officers, W. P. G. Harding, who, with Hamlin, had already been confirmed by the Senate to membership on the Federal Reserve Board, and more than a score of the great bankers of New York and Philadelphia, gathered in solemn realization of the import of their meeting. For the first time since he had taken the Secretaryship of the Treasury McAdoo was facing in person the united power of the men whom he had fought and defeated by his measures of financial reform. In the emergency of national danger, however, all animosity was apparently as deeply buried by the

older powers as it was actually buried by the administration.

In gloomiest foreboding the bankers acknowledged their inability to deal with the situation, and insisted that assistance from the Treasury of the United States was essential to the salvation of American financial institutions. New York was fronting, they told him, an intensification of the danger which threatened the country as a result of the impending war in Europe. It was evident even to the unenlightened that on the morrow England would make her final demand that Germany respect the neutrality of Belgium, and equally evident that Germany would refuse the request and move her divisions as speedily as possible toward France. New York, with its great foreign-born population, keenly aware of the issues and interests involved, had already taken alarm. Nothing but the noonday closing of the banks on Saturday had prevented a run upon them, a run which would have found them unprepared, and which would unquestionably have created a more terrible panic than any the nation could recall. With the situation tightening every moment, to-morrow's panic was even more certain. Ten o'clock in the morning would find thousands of men and women clamoring for return of their savings. The banks of New York did not have currency sufficient to meet the demands of these depositors. With the refusal, bedlam would break. What, they asked, was the Secretary of the Treasury going to do?

The Secretary of the Treasury, tired by long vigils, by hasty travel, by the beginning of those responsibilities which fate was to shove upon his physically lean and morally broad shoulders, may have indulged in a Lincolnian twinkle as he looked upon the faces of

his questioners. From their point of view he must have seemed cornered into acceptance of a proposition to permit the national banks to count national bank notes as part of their reserve on the ground that this was the only measure which would save them from suspending payment or a counter-proposition to issue the equivalent of those clearing-house certificates as they had been issued, not wisely but too broadly, in the banker's panic of 1907. Such procedure would, of course, cross one raging stream, but it would only lead to another that would be, even in the emergency, not without profit to the banks. The Secretary had another solution.

The Treasury, he told the bankers, had already provided for the emergency. Under the provisions of the Aldrich-Vreeland Act, which he had caused Congress to extend until such a time as the Federal Reserve would be in working order, providing June 30, 1915, instead of June 30, 1914, as its time of expiration, the banks would secure currency equal to their needs by conforming to the terms of the measure. His hearers, admitting the truth of this, called his attention to the fact that some of them were debarred from taking advantage of this relief by a clause of the Act which he was to consider later, and by the more urgent fact that there was not time to secure the currency from the Treasury, even if they could apply for it. The banks on which a run was likely must have such currency at the time of opening the next morning. It was manifestly impossible to transport it from Washington between the time of the opening of the Treasury at nine o'clock and the time of the opening of the banks at ten.

It was, the Secretary agreed, if the amount needed were in Washington; but, foreseeing the necessity which had now arisen, he had already ordered $40,000,-

000 of emergency currency to be shipped to the Sub-Treasury in New York, and proportionate amounts transported to other Sub-Treasuries of other cities where such necessity seemed probable. He had also ordered an additional $60,000,000 to be printed to meet the crisis. The presses of the Bureau of Engraving and Printing had been working day and night upon the order, and he stood ready to deliver to them a total of nearly $100,000,000 almost immediately. Every bank in New York which needed the currency, and which was ready to comply with the law, could have the money on application, provided only that in consideration for this assistance they must agree to pay out currency as demanded by their depositors, whether individuals or banks. No suspension or limitation of payment and no refusal to ship money to correspondent banks, such as had marked the panic of 1907, would be tolerated.

With justice the bankers objected that many of them were not able to avail themselves of the aid, since the Aldrich-Vreeland Act provided that the banks must have forty per cent. outstanding circulation secured by Government bonds in order to issue additional currency. No bank, they knew, could receive emergency currency unless it had outstanding circulating notes secured by the deposit of United States bonds to an amount not less than this percentage of their capital. The Secretary said that he would do his utmost to have passed by Congress with the greatest possible expedition an amendment to the Aldrich-Vreeland Act to make the emergency currency available to all national banks whether they had outstanding circulation or not, and to liberalize other features of the Act.

On his promise and his announcement to the press

that arrangements had been perfected for the issuance to New York banks of $100,000,000 of additional currency, if required, the situation cleared. With his extension of the issue of currency to other cities upon application to the Treasury Department and compliance with terms of the Act the tension eased. Having the assurance of the money, they could set aside their fear of runs. Forty million dollars of currency lay in the vaults of the Sub-Treasury, on Wall Street. Sixty million more could be drawn upon. There remained only the labor of convincing Congress at once of the need of amending the currency measure.

The announcement of the action of the Secretary, made in the newspapers the next morning, the fateful third of August when the King of Belgium appealed to Great Britain for aid, and Sir Edward Grey assured the House of Commons that the British fleet would protect the French coast and French shipping, if these were attacked by Germany, had the effect of the actual placement of the money in the banks. In spite of New York's understanding of the significance of the situation and the financial danger in a vast war, no panic came. The Government of the United States had assured its wards, the bank depositors of the nation, of its support, and the people accepted the assurance. McAdoo had cleared the first channel of his country's part in the surge of events.

Leaving Williams, Hamlin and Harding, with the National Bank Examiner of New York City, in the Sub-Treasury at New York to pass on the paper offered by the New York banks as security for notes, McAdoo returned to Washington. There he directed the Treasury to render assistance to currency associations which were organizing throughout the country. In many

localities this meant that the Government had to take the initiative in such organization, but within a few days the nation was divided into forty-four national currency districts, with national currency associations formed in every one of them. Shipments were being made to these associations at the same time when shipments were made to New York City.

The Congress immediately considered amendments to the Aldrich-Vreeland Act. These amendments, in brief, authorized the Secretary of the Treasury to waive the requirement that a national bank must have issued circulation to the extent of forty per cent. of its capital before being entitled to receive emergency currency, and also authorized him to suspend the provision of the Act which limited the actual amount of emergency currency to $500,000,000, and to issue to any national bank circulating notes to an amount not in excess of one hundred and twenty-five per cent. of its unimpaired capital and surplus. As a result of these amendments and those already embodied in the Federal Reserve Act the national banks were supplied with the currency which they needed without delay or hindrance, and a great demoralization was prevented. Afterward —in 1916—certain Republican members of the Senate were to bring up the claim that the administration failed to use the Federal Reserve Act during the crisis because the Treasury knew it unsuitable. Senator Curtis was to state, "The Act was not put into operation for the simple reason that the Democratic party then in power did not have sufficient confidence in it and they did know that the emergency law of the Republicans had prevented a panic and they were willing to trust that law." In view of the fact that it had been the Republican opposition to confirmation of the members

of the Federal Reserve Board that had retarded the establishment of that system, and of the added fact that but for the amendments to the Aldrich-Vreeland Act secured by McAdoo both before and during the emergency of 1914, the statement becomes only a partisan untruth. The unanimous passage of the amendments by both House and Senate at that time in one day was a vote of confidence in the Secretary which rose above party, reflecting credit upon those who voted it as well as upon the man to whom it was given.

Under the original law, in force until the President signed the amendments on August 4th, the day when Germany declared war on Belgium, when Great Britain declared war on Germany, and the President proclaimed the neutrality of the United States, the banks of New York City would have been entitled on a prorated basis to about $93,500,000 of emergency currency. The inadequacy of that amount is shown by the fact that the banks in that city applied to the Secretary of the Treasury for an aggregate of $156,539,000, an amount authorized for issuance by the amendment. Had the law not been changed the National City Bank of New York, on account of the provision demanding an outstanding circulation equal to forty per cent. of its capital, could not have secured that $29,900,000 for which its president eagerly applied; nor could the Chase National Bank, which was allowed over $11,000,000 in currency, have received one cent. The necessary refusal of the Secretary to grant these issues under the old law would have created a situation seldom surpassed in danger for the most important banks of the country. Beside it, the panic of 1907 would have been a flurry. The Secretary's quick action, preventing it, literally saved from disaster some of his most active opponents;

but it also saved the country from the effects of a cataclysmic failure at that critical time.

Without the amendment, the Treasury would have been unable to issue any emergency currency to 229 national banks for which it actually approved application for such currency up to the amount of $126,249,480. Of these banks, eleven in the New England States received $15,706,500, eleven in New York City received $76,278,180, six in Pennsylvania received $5,578,000, one hundred and fifty-one in the South were enabled to get $5,406,300, eighteen in the Middle West received $21,204,500, nineteen in the Western States secured $1,109,000, and six banks in the Pacific States received $967,000. This currency, distributed through the nation, tided the current of disaster, and was later, with the currency available under the old provisions of the law—amounting to a total for both of $38,644,215—retired without difficulty.

One of the myriad obstacles met by the Treasury in the course of the readjustment of finance at this crisis was the demand of state banks for certain benefits conferred on national banks by the emergency measure. Because they were not organized under the National Banking Law they had to be refused their request to issue currency, as could the national banks, upon the deposit of security through the newly created currency associations. Representatives of many important state banks undertook, upon McAdoo's refusal, to get favoring legislation through Congress; but the Secretary fought them because of his belief that the measure was unworkable as well as unjust to the national banks. Later, addressing the convention of Indiana bankers at Indianapolis in 1915, he urged upon the state banks the desirability of joining the Federal Re-

serve System, pointing out the liberal provisions of the law for their accommodation.

With the realization that the Aldrich-Vreeland Act, even as reinforced by his amendments, was by no means strong enough to weather the advancing gales, McAdoo spurred into speed the agencies which were retarding the progress of the Federal Reserve System. The Federal Reserve Act provided, as its predecessor had not, for the abolition of heavy exchange charges and the general clearing of checks; for the rediscounting of paper for the member banks; for the opportunity given a member bank to convert its commercial paper into currency at one hundred cents on the dollar, when backed by the requisite percentage of gold reserve; for the loaning of money by member banks on unincumbered farm property; for the development and expansion of international trade by the establishment of branches of national banks in foreign countries; for the building up of a business in bank acceptances and an open market for commercial paper which was to facilitate the United States in securing a larger share of international trade in world commerce. These were the advantages among others that were being held up by the refusal of the Senate to confirm two of the President's appointment to the board, Paul M. Warburg and Thomas D. Jones. To Jones' insistence that his name be withdrawn because of the partisan fight against him the President reluctantly yielded, and substituted for his appointment that of F. A. Delano, who, with Warburg, was confirmed by the Senate on August 7, 1914.

THE FEDERAL RESERVE SYSTEM IN OPERATION

The Federal Reserve Act was, as McAdoo once stated,

"not fool-proof," and upon its administration depended its success. Knowing the responsibility of the Treasury for that success, he held to his point that the Treasury, and not the banks of the country, should hold the balance of power. The placement by law of the Secretary and the Comptroller of the Currency as ex officio members of the board was to do much to insure democratization for the institution, although events were to prove how dependent upon the strength or weakness of any Secretary of the Treasury was the system. From the outset it was McAdoo's dominating personality, quite as much as the provisions of the Act, which determined the course of the Federal Reserve.

On the tenth of August, 1914, the Federal Reserve Board was inducted into office, with Charles S. Hamlin as Governor, and F. A. Delano as Vice-Governor. The Organization Committee had already taken the preliminary steps, resulting in the election by the banks of six directors in each Federal Reserve district, but there remained for the board the immense task of building upon the giant framework.

From the very beginning the line of cleavage on the Federal Reserve Board was sharply defined. McAdoo, frankly desirous that the control of the board should not be financial, deferred, however, to the exigencies of the crisis and the President's belief that the financial representation should be even more than equitably adequate, a belief founded upon a faith in human nature which his Secretary of the Treasury did not altogether share.

One of the first points at issue was the question of the time for opening of the Federal Reserve Banks. Several of the board members opposed McAdoo's plan of putting these banks in operation in the autumn of

1914, declaring that the time was too short. The Federal Reserve Advisory Council, composed of bankers from each of the Federal Reserve districts, held a meeting in Washington and formally advised the postponement of any bank opening until some time in the following year. The officers of the banks were also in favor of the postponement, many of them saying that it was impossible to get the necessary quarters, the furniture and the fixtures. McAdoo held staunchly to his belief that the banks should be opened without delay.

Fortunately for the nation, the Federal Reserve Act provided that the Secretary of the Treasury alone should have power to say when the banks should begin business. He therefore summarily directed them to begin operations on the sixteenth of November, 1914, giving them two weeks' notice to prepare for that opening. To a governor of one of the banks, who came to him with excited protest, insisting that he could not possibly secure a place for such an opening, the Secretary suggested that he hire a vacant room somewhere in the reserve city, put in a desk or two, put the sign on the door, deposit the reserves in some safe deposit vault temporarily, and start business, putting in action the Greeley advice that "The way to resume is to resume."

The board, assembling in Washington, faced the double task of setting the regional banks in motion, and of meeting as they came the emergencies arising from the war in Europe. One of the first considerations was the appointment of three Governmental directors for each one of the twelve districts, supplementing the six already chosen by the member banks of each district. There followed issuance of regulations relating to dis-

count operations and commercial paper. On November 10th the board sent out a letter to the banks, recommending that the Federal Reserve Banks should confine themselves strictly to short-term, self-liquidating paper growing out of commercial, agricultural and industrial operations, in the restricted sense of these terms, and that particular care should be taken not to discount or purchase paper which had been issued primarily for the purpose of providing capital investment for any business. The board also issued a circular in which the banks were advised to make their payments for capital and reserves in gold or its equivalent taken from their vaults. General compliance with both requests was shown by the report issued on the day before the banks formally opened, the sixteenth of November.

On the day following the opening of the banks, the President, replying to a communication from McAdoo announcing the event, sent him this letter:

"THE WHITE HOUSE

"Washington, November 17, 1914.

"My dear Mr. Secretary:

"I warmly appreciate your letter of yesterday, for I share your feeling entirely about the significance of the opening of the Federal Reserve Banks for business.

"I do not know that any special credit belongs to me for the part I was privileged to play in the establishment of this new system of which we confidently hope so much; in it the labor and knowledge and forethought and practical experience and sagacity of many men are embodied who have cooperated with unusual wisdom and admirable public spirit. None of them, I am sure,

will be jealous of the distribution of the praise for the great piece of legislation upon which the new system rests; they will only rejoice unselfishly to see the thing accomplished upon which they had set their hearts.

"It has been accomplished and its accomplishment is of the deepest significance, both because of the things it has done away with and because of the things it has supplied that the country lacked and had long needed. It has done away with agitation and suspicion, because it has done away with certain fundamental wrongs. It has supplied means of accommodation in the business world and an instrumentality by which the interests of all, without regard to class, may readily be served.

"We have only to look back ten years or so to realize the deep perplexities and dangerous ill-humors out of which we have now at last issued, as if from a bewildering fog, a noxious miasma. Ten or twelve years ago the country was torn and excited by an agitation which shook the very foundation of her political life, brought her business ideals into question, condemned her social standards, denied the honesty of her men of affairs, the integrity of her economic processes, the morality and good faith of many of the things which her law sustained. Those who had power, whether in business or in politics, were almost universally looked upon with suspicion and little attempt was made to distinguish the just from the unjust. They in their turn seemed to distrust the people and to wish to limit their control. There was an ominous antagonism between classes. Capital and labor were in sharp conflict without prospect of accommodation between them. Interests harshly clashed which should have cooperated.

"This was not merely the work of irresponsible agitators. There were real wrongs which cried out to be

righted, and fearless men had called attention to them, demanding that they be dealt with by law. We were living under a tariff which had been purposely contrived to confer private favors upon those who were cooperating to keep the party that originated it in power; and in that all too fertile soil all the bad, interlaced growth and jungle of monopoly had sprung up. Credit, the very life of trade, the very air men must breathe if they would meet their opportunities, was too largely in the control of the same small groups who had planted and cultivated monopoly. The control of all big business, and by consequence of all little business, too, was for the most part potentially, if not actually, in their hands.

"And the thing stood so until the Democratic party came into power last year. The legislation of the last year and a half has in very large measure done away with those things. With their correction, suspicion and ill-will will pass away. For not only have these things been righted, but new things have been put into action which are sure to prove the instruments of a new life, in which the mists and distempers which have so embarrassed us will be cleared away; the wrongs and misunderstandings corrected which have brought distrust upon so many honest men unjustly. That is the main ground of my own satisfaction.

"The tariff has been recast with a view to supporting the Government rather than supporting the favored beneficiaries of the Government. A system of banking and currency issues has been created which puts credit within the reach of every man who can show a going business; and the supervision and control of the system is in the hands of a responsible agency of the Government itself. A trade tribunal has been created in which those who attempt unjust and oppressive prac-

tises in business can be brought to book. Labor has been made something else in the view of the law than a mere mercantile commodity, something human and linked with the privileges of life itself. The soil has everywhere been laid bare out of which monopoly is slowly to be eradicated. And undoubtedly the means by which credit has been set free is at the heart of all those things, is the keypiece of the whole structure.

"This is the more significant because of its opportuneness. It is brought to its final accomplishment just as it is most imperatively needed. The war which has involved the whole of the heart of Europe has made it necessary that the United States should mobilize its resources in the most effective way possible and make her credit and her usefulness good for the service of the whole world. It has created, too, special difficulties, peculiar situations, to be dealt with, like the great embarrassment in selling our immense cotton crop, which all the world needs but against which, for the time being, the markets of the world are in danger of being artificially shut. That situation the bankers of the country are meeting so far as possible in a businesslike fashion and in the spirit of the new time which is opening before us. The railroads of the country are almost as much affected, not so much because their business is curtailed as because their credit is called in question by doubt as to their earning capacity. There is no other interest so central to the business welfare of the country as this. No doubt in the light of the new day, with its new understandings, the problems of the railroads will also be met and dealt with in a spirit of candor and justice.

"For the future is clear and bright with promise of the best things. While there was agitation and sus-

picion and distrust and bitter complaint of wrong, groups and classes were at war with one another, did not see that their interests were common and suffered only when separated and brought into conflict. Fundamental wrongs once righted, as they may now easily and quickly be, all difference will clear away. We are all in the same boat, though apparently we had forgotten it. We now know the port for which we are bound. We have, and shall have more and more as our new understandings ripen, a common discipline of patriotic purpose. We shall advance, and advance together, with a new spirit, a new enthusiasm, a new cordiality of spirited cooperation. It is an inspiring prospect. Our task is henceforth to work, not for any single interest, but for all the interests of the country as a united whole.

"The future will be very different from the past, which we shall presently look back upon, I venture to say, as if upon a bad dream. The future will be different in action and different in spirit, a time of healing because a time of just dealing and cooperation between men made equal before the law in fact as well as in name. I am speaking of this because the new banking system seems to me to symbolize all of it. The opening of the Federal Reserve Banks seems to me to be the principal agency we have created for the emancipation we seek. The sixteenth of November, 1914, will be notable as marking the time when we were best able to realize just what had happened.

"In the anxious times through which we have been passing you have, my dear Mr. Secretary, been able to do many noteworthy things to strengthen and facilitate the business operations of the country. Henceforth you have a new instrument at hand which will render many

parts of your task easy. I heartily congratulate you upon the part you yourself played in its conception and creation, and upon the successful completion of the difficult work of organization. A new day has dawned for the beloved country whose lasting prosperity and happiness we so earnestly desire.

"Cordially and faithfully yours,

(Signed) "WOODROW WILSON.

"Hon. William G. McAdoo,

"Secretary of the Treasury."

The dawning of the new day so hopefully greeted by the President was not, however, without clouds. From within and without the institution was assailed, first by partisan attack, then by disagreement of the members of the board themselves on questions of authority, and finally by the tremendous and antagonistic forces engaged in the European War. That it withstood them all was due as much to McAdoo's immediate action in crisis as to his general policy. To the Republican attacks of Lindenbergh, of Minnesota, in the House and of Curtis, of Kansas, in the Senate he presented cold, hard and confounding facts which routed these adversaries. The other dangers he had to meet, however, with greater tact, involving as they did subtler elements of disintegration.

The question of the status of the Federal Reserve Board continued to trouble the board as well as the bankers. By the law the Government had been given the right to appoint three out of the nine directors of every Federal Reserve Bank, and the right to remove any or all directors for cause. The Government also was delegated to take as a franchise tax all profits of

the institution over and above the expenses, and a six per cent. dividend and the fixed surplus fund. The Government had ruled that the Federal Reserve Banks were not subject to internal revenue tax, thus stamping them as Government institutions which were controlling member banks in the interest of the public. This status, clearly as it had been defined by the Secretary of the Treasury, the Comptroller of the Currency and the Governor of the Federal Reserve Board, did not meet with acceptance from all the directorates of the Federal Reserve Banks nor even from all the members of the board.

A meeting of that body, called by Governor Hamlin for August 10, 1915, brought the matter to focus. Hamlin had named the Federal Reserve Bank of New York as meeting place. McAdoo, in North Haven, Maine, directed by wire that the meeting be held in the New York Sub-Treasury. Warburg, Harding and Miller—Delano was in Panama—refused to attend the meeting in the latter place, contending that they were officers of the Federal Reserve Banks, and not of the Government, and that, as such, they should meet in the Federal Reserve Bank of New York. McAdoo, informed of their refusal, wrote them requesting explanation of their refusal. Miller, in answering, took high but rather befogged ground about a "question of principle." Warburg stood by his guns, but Harding wavered, explaining that he had acted only out of a desire to secure action on a vital question. The vitality of the question seems to have been carefully estimated by the Secretary, for in a letter to Hamlin, written August 14th, he stated:

"This matter, while unimportant in one way, is very important in another. It discloses an attitude on the

part of three members of the board toward the Government which surprises me. In other words, there seems to be a disposition to consider the board more of a creature of the banks than of the Government. Perhaps I am wrong in this, but I can not dismiss the impression. Why objection should be made, on the part of a Government Board, to a meeting on Government property is beyond my comprehension, and, particularly, in the circumstances, where the matter for discussion was one in which the Federal Reserve Bank of New York was primarily interested. An impression has been created by enemies of the Reserve System that the Federal Reserve Board is a creature of the banks, anyway, and this action will undoubtedly encourage such a belief."

In a letter of August 22nd, also to Governor Hamlin, he elaborated the issue:

"I should regret very much to believe, although I fear that there is much foundation for the opinion, that these gentlemen want to make it appear that the Federal Reserve Board has no relation to, or connection with, the Treasury Department; that it is absolutely independent of it, and that the board is more the representative of the banking interests of the country than an independent Government Board representing the public, whose functions are closely coordinated, by necessity, with the Treasury Department, and whose cooperation with the Treasury Department was not only contemplated by the Federal Reserve Act, but is, by that very Act, incumbent upon the board. Such cooperation is also essential to the success of the system, and in any case, is the common-sense and rational thing to do when one considers the law and the necessary things to be done in the intelligent administration

of the Federal Reserve Act. I think that for the future of the board it would be unfortunate if the belief, which has already gained some headway in the country, is allowed to grow, that the board is the creature of the banks and not independent of them, instead of being a distinctly Governmental institution."

Although the Secretary was willing to have the issue defined by the belligerents, and to thresh it out "without ill feeling," as he emphasized, even to the point of referring it to the Attorney-General, the matter went no further; but through McAdoo's time in office the status of the board as a Governmental rather than a banking institution was not questioned by that body. It may have been, as he later characterized it, a tempest in a teapot, but it was a significant ebullition of the difficulties of administration which he had to overcome to bring about such working of the law as had been projected by its creators.

Another eruption of wider range but of hardly greater significance arose in November of the same year when a sub-committee of the Federal Reserve Board took under consideration the question of the abolition of the Federal Reserve Banks of Minneapolis, Kansas City, Dallas, Atlanta and Boston. A report of the proceedings, circulated with despatch in the whispering gallery that is Washington, brought out indignant protests from the Congressional sponsors of the Federal Reserve Act, Carter Glass and Robert L. Owen, although, as a matter of fact, the Secretary of the Treasury had disposed of the project four days before Senator Owen's communication was written to the Federal Reserve Board. Glass, after declaration that the framers of the law had never intended the bestowal of

such power upon the board, insisted that, even had the power been granted, the use of it at that time would startle the country to the point of panic. In a letter addressed to F. A. Delano on November 15th Secretary McAdoo reviewed the plan of reduction, summing up the situation in the statement that if the power had been given to the board in the Federal Reserve Act, it was certainly implied and not expressed. With Glass's insistence upon the lack of intention of such implication and Owen's flat-footed assertion that the law gave the board no right to abolish the number of banks created by the Act, with the Attorney-General's opinion sustaining this view, and McAdoo's already expressed determination to keep the board a Governmental agency, the board voted to table further consideration of the redistricting question, and the twelve original districts determined by the organization committee still hold.

The idea that the Federal Reserve System was an emergency measure, an idea which had for authority no less a proponent than Paul M. Warburg, dimmed as the continuation of the war in Europe threw heavier strain upon American financial institutions. From the time of the opening of the Federal Reserve Banks in November, 1914, to September, 1916, the office of the Comptroller of the Currency issued charters to 248 new national banks; and 180 existing national banks increased their capital to the extent of $20,000,000. During the first entire fiscal year of operation of the Federal Reserve System the liabilities of failed national banks amounted to less than one-tenth of the liabilities of national banks which had failed in the year preceding the inauguration of the system. The total loss to

depositors from the failure of national banks during the later year was less than $250,000. By September, 1916, the deposits in all the banks throughout the United States were so huge that John Skelton Williams made the declaration that if there should be withdrawn from all these banks an amount of deposits equal to the total resources at that time of the Bank of England, the Bank of France, the Bank of Spain, the Bank of the Netherlands, the Bank of Norway, the Bank of Sweden, the national Bank of Switzerland, and the Imperial Bank of Japan, all combined, the deposits of the American banks would still be as great as they had been in 1913. The abolition of the archaic system of banking and currency under which the nation had labored had resulted in the establishment not only of a real democracy of credit but also in a bulwark which withstood the shock of a world war.

The definition of status of the Federal Reserve Board as a Governmental agency was to have two vitally important results of immediate bearing upon the war: the establishment of the fact that, as Governmental agencies, Federal Reserve Banks could not make loans to belligerent countries, and the building of an institution which, by virtue of its closeness of alliance to the Treasury of the United States, stood ready upon the nation's entrance into the war to accomplish the task imposed upon it by the Secretary. Had it not been for the method of operation of the Federal Reserve System McAdoo could not have set in motion with such amazing speed the Liberty Loan machinery which was to prove one of the country's greatest wartime assets. The tracks of American war finance were already laid before the beginning of the war abroad, and, as the waters of conflict widened, the instrumentalities of victory were

being put in readiness for possible need. No one can study McAdoo's course through the period between August, 1914, and April, 1917, without realization that his outstanding executive quality was foresight. He was no Jeremiah. He refused to acknowledge any inevitability of American participation in the struggle, and seconded the President in determined effort to avoid war; but, like a captain who cruises on the edge of a storm belt, he made ready his ship for whatever winds might blow. The Federal Reserve System, pivotal though it was to national integrity, was not his only concern. It was, in fact, characteristic of him also that, once he had directed it into operation and guided it over the shoals and quicksands of dangers, he went to the bridge and left the helm to the steersmen of his choosing. Only when the situation demanded his immediate action did he take it. The exigencies of war, however, forced this action upon him so often that in the long run he remained throughout his term in office the pilot of the vessel; and the log of the ship has to be written from the angle of the captain's binnacle.

AMERICAN SHIPPING AND FOREIGN EXCHANGE

The first Treasury order directly concerned with the war rang out on a clarion note. The instruction given by the Secretary on August 5, 1914, to Collectors of the Customs at all ports of the United States: "Notify all steamship companies and masters immediately that no vessels will be permitted to steer from your port until they have filed their full manifests and also that all outgoing foreign vessels will be subject to the inspection of their papers and cargoes by United States authorities within the territorial waters

of the United States," sounded the primary and authentic note of Governmental authority. Brief though it was, the order was both threat and promise that the Government of the United States was going to protect its own interests in the struggle.

The same idea of protection, otherwise manifested, was repeated in another pronouncement of the same day when the Secretary announced that a plan for the relief of Americans traveling in Europe and caught by the war had been evolved at a meeting between the Secretary of State, the Secretary of War and himself. The plan provided that the Sub-Treasuries at San Francisco, Chicago, New Orleans, Baltimore, Boston, St. Louis, New York, Cincinnati and Philadelphia, and the Treasury at Washington would receive deposits for the benefit of these travelers, and would make every possible effort to transmit such funds to the persons for whom they were designated. On the same day Congress, at the solicitation of McAdoo, by unanimous vote, passed an appropriation for the relief of Americans in Europe. The *Tennessee* was ordered to sail from New York on the day following, carrying a sufficient amount of gold for relief purposes, and the President appointed a board, with the Secretary of the Treasury for its chairman, to administer the relief.

The *Tennessee* steamed eastward from New York two days after Great Britain had declared war. Besides the relief given to those traveling Americans who were aided by the provisions of their families or friends, the commission extended aid to over ten thousand Americans who gave promissory notes for the money advanced them. The fact that more than one thousand four hundred of these later refused to honor their own notes—not from an excuse of poverty—may be taken

as an indication of the touring American's belief in his country's paternalism, but it does not affect the fact that the relief was given when it was most needed.

On the seventh of August came the Secretary's announcement that "it is of vital importance to the country that two things be done as quickly as possible:

"First: Provide sufficient ships to move our grain and cotton crops to European markets; and

"Second: Restore through the bankers the market for foreign bills of exchange."

The demoralization of foreign exchanges and credits and the utter disorganization of ocean transportation had already produced a situation of grave danger to the American people. Grain and foodstuffs for export were piled so high on the wharves of Atlantic and Gulf of Mexico ports that the railroads had placed an embargo on shipments of grain to Baltimore, New Orleans and Galveston. The cotton crop, the largest supply in the history of the country, had been rendered practically worthless by the shutting down of the foreign market for it. There was, in the strict sense, no duty upon the Treasury to undertake the solution of these momentous problems. McAdoo might have passed on the other side; but it was not in keeping with his character to witness such difficulties without making earnest endeavor to ameliorate the conditions. His fundamental sympathy with the human being buffeted by fate, a sympathy emanating from his temperament and early environment, urged him toward action in this crisis, as it was to urge him in every succeeding crisis of his country's affairs throughout his work in the Treasury. In addition to his sympathy he had also the statesman's quality of imagination. He could look around a corner; and he glimpsed in the emergency

some of those larger issues which were in time to come out of it.

That association with international finance which was to take him on deeper seas than any other American Secretary of the Treasury had ever sailed began immediately upon the outbreak of the war, arising almost directly from the situation in Great Britain. All the Stock Exchanges of the United Kingdom had been closed at the end of July, and it soon became clear that they could not be reopened until adequate measures had been taken to deal with the open accounts. A plan was finally agreed on by the Committee of the Stock Exchange, the Bank of England and the British Treasury, under which forced liquidation was avoided, and the banks which had loaned money to members of the Stock Exchange were protected against loss by a British Government guarantee. These measures gave to the British Treasury effective control over the Stock Exchange and the financial community in general, assuring the Government a dominant voice in settling conditions under which the Stock Exchange could be reopened, an action not taken until the beginning of January, 1915. In the meantime, the actual date of declaration being August 3rd, the House of Commons passed a moratorium, deferring the payment of all bills of exchange, other than checks or bills on demand, which had been accepted before the beginning of the fourth day of August, for one calendar month after the date of their original maturity. The British Government also prohibited the suspension of specie payments on the part of the Bank of England. Although the newspapers of the principal cities of the United States printed the essential facts, rumors of other arrangements filled the air, and the Secretary of the Treasury

of the United States was deluged with queries, oral, written and telegraphic, for exact information on the points at issue in their relation to British trade with America.

Through official and private agencies McAdoo had already set about securing accurate statements of the situation. At his request Bryan, the Secretary of State, had cabled to Walter Hines Page, American Ambassador to Great Britain, to Herrick, Ambassador to France, to Francis in Russia, to Thomas Nelson Page in Italy, to Stovall in Switzerland, and to Brand Whitlock in Belgium, requesting details of the financial action of these various countries. Paul M. Warburg, laboring in the New York Sub-Treasury with commendable zeal, was able to transmit to McAdoo almost coincidentally with the answers to Bryan a detailed report from American financiers whom the war had caught in Europe. It is no less than the measure of justice to call attention to the fact that the correspondence of Warburg to McAdoo at this time and at all later times, a correspondence seldom equaled for voluminousness in modern times, shows nothing of the pro-German sympathy which his enemies alleged to be his public handicap. Some of his family were in Germany, but from the beginning of the war he was sedulously careful to keep all personal bias from his official judgments and actions. In view of his attitude as well as his actions it is not surprising that McAdoo, the last man to accept unproved charges against any man, should have held confidence in his lieutenant, and he inclined toward Warburg's view that the declarations of moratoria, necessary though they might be to the lives of the nations declaring them, Great Britain, France, Belgium and Italy, put the United States upon

a defensive which demanded protective, but not retaliatory, action.

The intimate financial relationship of the United States with the belligerent countries placed on American interests the burden of continuing to pay their maturing obligations abroad while the long-time bills which they had bought could not be collected and while balances due them were not being paid. Europe also had ceased to buy American staples. It was impossible that the United States should continue to be drawn upon without being placed in a precarious financial condition. Gold holdings were being depleted to the point of danger.

Various suggestions were made to McAdoo for action in the emergency. One of these offered the declaration of a counter-moratorium by the United States, a suggestion which the Secretary took up with the Attorney-General, but discarded before the legal opinion was returned. It was also suggested that the United States enter into negotiations with the British Government either through the British Ambassador at Washington or the American Ambassador at London, with a view toward bringing about a working plan which would enable Americans to pay and thereby afford the nations at war opportunity to solve their own problems, particularly that of the purchase of foodstuffs. Warburg was in favor of this latter plan, and worked out a scheme by which it could be accomplished. McAdoo, however, seeing the broader aspects of the problem, and realizing how closely the question of foreign exchange was interwoven with shipping, held off definite action until the assembling of the conference which he had already convoked.

Knowing the necessity of prompt action he had

called a conference of foreign exchange bankers and of representatives of the leading shipping interests to meet in Washington on the fourteenth of August, inviting delegates from the New York, Chicago, St. Louis and Kansas City Clearing-House Associations, from the National Foreign Trade Council, from the Chamber of Commerce of the United States, the Chamber of Commerce of New York, the Produce Exchange, the Chicago Board of Trade, the milling interests, the Baltimore shipping interests, and the New York foreign exchange and banking interests, the Secretary of Commerce, the Secretary of Agriculture and the members of the Federal Reserve Board. This conference, important rather for its promulgation of McAdoo's plan for War Risk Insurance than for its immediate effect on the exchange situation, nevertheless laid the foundations for the accomplishments of the Secretary and the Federal Reserve Board in readjusting foreign exchange.

It was already apparent that unless the price of London exchange could be reduced from the high level then prevailing, of above $5 a pound sterling, to approximately the normal rate of $4.87 a pound sterling, the financial interests of the American people must suffer seriously. The war had found American business men and bankers owing London the sum of approximately $450,000,000 maturing by January 1, 1915. The city of New York owed $80,000,000, maturing in either London or Paris during that period. Ordinarily this debit balance would have been paid off by American shipments of cotton, grain, foodstuffs and other commodities. The check upon the normal exportations of these, however, made it necessary to devise some measure to permit American business to meet its foreign obligations in gold without suffering the great

losses which the high price of exchange at that time would have compelled.

The conference, the Secretary, and various unofficial interested agencies agreed that a fund of $100,000,000 in gold, to be contributed by the national and state banks and trust companies in the various states, and to be administered by a committee of bankers in New York, would restore confidence and afford relief. The Federal Reserve Board made allotment of the prorating of the contributions to be received by each clearing house. Action on these allotments was so effective that over $108,000,000 was almost immediately subscribed. The effect of the plan was to make the actual exportation of more than $10,000,000 unnecessary, for by the time of the opening of the Federal Reserve Banks in November the premium on the pound sterling had disappeared, owing among other things to the success of the Treasury action in two vital problems, the cotton situation and the war risk insurance of American vessels.

CHAPTER II

King Cotton

NOWHERE did the war in Europe strike a deadlier blow at a non-combatant than the one which its outbreak forced upon the cotton-growers of the Southern States of America. From the very beginning of the cotton industry Europe, particularly England, had been the principal foreign market for the cotton crop. Cotton was not grown as a staple until the year 1770, but in that year ten bales of American cotton were shipped to Liverpool from Charleston, three from New York, four bags from Virginia, and three barrels from North Carolina. From 1791 to 1914, 304,000,000 bales of cotton had been exported. From 1850 to 1914 the value of the 276,000,000 bales exported was nearly $15,000,000,000.

The production of cotton in the South for the year 1913 had amounted to nearly 14,000,000 bales, with a value, including the seed, of over a billion dollars. During the year 1912 the value of exported cotton had exceeded the values of exports of iron and steel manufacture, meat, dairy products and breadstuffs combined. In 1913 approximately 9,000,000 bales of cotton were exported, with a value of over $500,000,000, and only a little less than one-fourth the total value of all articles of domestic merchandise exported that year. During the month of August, 1914, cotton exports dropped to 21,210 bales. In September, 1914, the exports were a little over 100,000 bales, which was less than one-tenth the export total of the September of 1913.

The sharp and sudden closing of the leading market for their crop threw the cotton-raisers of the South into panic. The situation seemed disastrous. The crop

had been phenomenal in size, and had been reckoned a primary factor in promoting the prosperity of a section not yet completely recovered from the wounds of civil warfare. With the outbreak of the war the price of cotton not only went down to practically nothing, but there was no demand for cotton at any price. It became evident that an unusual amount of credit would have to be provided for the South if disaster were to be averted, but credit facilities were at that time most difficult to secure. The closing of the cotton exchanges, both in the United States and Great Britain, added to the chaos. The cotton-grower, unable to dispose of his crop at even the five cents a pound which was being offered at some places,—the estimated cost of production averaged ten cents a pound,—saw nothing but bankruptcy before him. Senators, Representatives in Congress, bankers, state officials were deluged with petitions from frantic men facing poverty and debt because of a condition in which they had no culpability. In turn Senators, Congressmen, bankers, state officials and every one with a vestige of authority directed the flood of petitioning toward the Treasury of the United States.

Technically, relief of the cotton situation was no part of the duty of the Secretary. Humanly, however, McAdoo was always open to a request for aid. Out of the poverty of his own childhood he had brought an ear attuned to any cry of economic suffering. His own recollections of that devastated land of his boyish memories must have influenced him strongly, although he always bent backward on any question of favoring the South merely as a section. With a realization of the need of haste in the situation he summoned a conference on the cotton situation to meet in Washington

on August 26, 1914, of representatives of cotton producers, manufacturers, Congressmen, bankers, railroad men, and members of the Federal Reserve Board.

At the conference suggestions for arbitrary enforcement of paternalistic theories arose to befog the atmosphere. McAdoo, keeping his head while not a few of his confreres were losing theirs and blaming it on him, pointed out the way to amelioration of the financial stringency involved. It was, he told the conference, a banking and shipping question.

Outside the limitations of his office, however, McAdoo was taking measures for the relief of the cotton states. He was throwing the weight of his influence to the plan proposed by Festus J. Wade of St. Louis for the raising of a fund of $135,000,000 to loan on cotton. He requested a number of southern bankers to go to St. Louis to discuss the plan with Wade, and secured the cooperation of the Federal Reserve Board to the point of approval of this Cotton Loan Fund. The banks of the City of New York agreed to pledge $50,000,000 on condition that an equal amount be raised in other and non-cotton-raising states, and that $35,000,000 be raised for pledge in the cotton-raising states. As in the case of the Gold Fund, the members of the Federal Reserve Board undertook the work of a central committee, and the Secretary, who had maintained the legal requirements of his office in refusing the extra-legal propositions thrust upon him, labored day and night upon promotion of the relief measure.

There is an interesting story of the way the Cotton Loan Fund was saved from failure. The fund was to be subscribed by a certain day or the plan would be abandoned. On the last day, the fund was short $3,000,000. McAdoo had exhausted every resource and

was sitting at his desk in the Treasury trying to devise some means of raising the final $3,000,000. In the midst of his perplexity, his secretary entered with a card—"Bernard M. Baruch, New York." McAdoo had only a casual acquaintance with him at that time. Baruch said: "Mr. Secretary, I understand that you need subscriptions to complete your Cotton Loan Fund. How much is required?" McAdoo replied, "Three million dollars." Baruch said, "I will subscribe the entire amount. I am a southerner and am deeply interested in helping the cotton-growers in their desperate emergency." McAdoo was delighted with Baruch's public-spirited action. It saved the situation. It also marked the beginning of the firm friendship existing between the two men.

The Cotton Loan Fund, although criticism was directed against it because it did not set the sales price of cotton at a higher figure, in connection with the issues of emergency currency against cotton secured notes, bridged the torrent of disaster to the South by enabling the banks and merchants of the cotton states to carry over four million bales of cotton until February, 1916. The best expert opinions of that period estimated the excess over the consumption at not over five million bales. The conference committee of the New York banks which met with Sir George Paish and Mr. Basil Blackett, sent by the British Chancellor of the Exchequer to the United States, on the situation estimated that the low price of cotton, which was less than the cost of production, would induce the cotton merchants and spinners of America and Europe to buy in excess of their needs, and that this buying would result in an absorption of considerably more cotton than the amount generally estimated. Both British

and American bankers, encouraged by the ameliorating measures of the British and American Governments, were urging the opening of the Cotton Exchanges, and one of the provisions of the Anglo-American conference was the understanding that the free purchase of American cotton by English spinners and merchants should be permitted by the bankers and Government authorities of Great Britain.

It was the establishment of the War Risk Insurance and the provisions of the Federal Reserve Act, however, which helped greatly to lessen the cotton problem. As Bankhead, Senator from Alabama, had stated with passionate fervor in October, 1914, it was not money, but a market which the cotton-growers primarily needed. The actual embargo placed on cotton because of the lack of carriers and the prohibitive cost of ocean transportation held like a stone wall, despite all financial arrangements, until the action of the Treasury in insuring cargoes lifted its worst stringency. The ruling of the British Order-in-Council, however, in 1915, even before Great Britain's declaration of cotton as contraband of war, severely hampered the cotton trade again just as it was beginning to rise after the blow of the previous year. The records of the Bureau of War Risk Insurance showed how the exports of cotton slumped after the ruling.

In June, 1915, about a month before the cotton crop of that year would begin to move, the Federal Reserve Board, at the request of the Secretary of the Treasury, appointed a special committee to study the conditions and needs of the cotton-growing districts. The committee ascertained that cotton acreage had been greatly reduced from the year before, and found the storage facilities adequate for the amount which might

have to be carried over. It also recommended the desirability of warehouse receipts for cotton, grain and other staple, non-perishable products of a readily marketable character as an excellent basis for bank loans, showing how these could be rediscounted at a Federal Reserve Bank under the law. The committee also devised a method by which cotton producers would secure low rates upon loans so established, a regulation which applied not only to cotton but to other staples such as grain, sugar and wool. The Federal Reserve Board made ready to set in operation a plan of interbank rediscounting in order to make available for Federal Reserve Banks requiring larger resources the available funds of other reserve banks. On September 3, 1915, before the movement of cotton could give rise to drafts on southern banks, the board issued commodity paper, which was mainly anticipatory and protective. In spite of the British declaration on August 19th that cotton was contraband of war, early and active buying started, stimulated by McAdoo's statement that he would, if necessary, deposit $30,000,000 in gold in the Federal Reserve Banks of Atlanta, Dallas and Richmond in order that these banks might have increased resources to rediscount loans made by national banks or member banks on cotton secured by warehouse receipts. The very declaration so eased the situation that only $5,000,000 in gold was required at each of the three banks. The price of cotton rose, and the staple moved steadily to market. Even with half a world at war, and the seas in constant peril, cotton was king again. But McAdoo knew that it could not stay "king" unless the shipping problem was dealt with successfully.

CHAPTER III

The American Merchant Marine

ON December 7, 1915, the commander of the steamship *Minnesota*, an American sea captain known from Puget Sound to Hong Kong, from Manila to Sydney, from Auckland to San Pedro, sent from his ship, then passing the Farallones, the following wireless message to the people of San Francisco:

"The Great Northern Steamship *Minnesota*, the finest ship that ever sailed the seas and the largest ship flying the American flag, is now passing down by your beautiful city, bound to a foreign country, never again to return with Old Glory floating over her stern. The reason for it is well known to all the business interests of our country. I bid you all farewell."

It was the cry of a broken heart, the voiced agony of a patriot who had from his boyhood sailed the high seas under the flag of his country, and who had now been ordered to take his ship, the last ship under the American flag on the Pacific, to a foreign country where she would be placed under British registry. Outward bound from Seattle, he had stood before those Stars and Stripes that were so soon to come down, and visioned the departed greatness of the American Merchant Marine. Traditions of the sea service of his nation, of days when the American flag had been a familiar sight in the harbors of Rio and Pernambuco, of Calcutta and Shanghai, of Mozambique and Zanzibar, in every great port of the beginning of the bygone century, had passed in review before him. Memories of the famous "Black Ball" line of ships, starting

between Liverpool and New York in 1817, of the *Savannah*, the first American steam packet, which had crossed the ocean a year before the British began steam navigation, of the *Dreadnaught*, that "packet of fame," sailed the horizons in shadowy going before the reality of the ships of other nations weaving into and out from the Golden Gate. British flags, Dutch flags, Norwegian flags, Japanese flags, even the flag of the Chinese Republic floating over the ship bought by the popular subscription of the Chinese of San Francisco, dotted the waters of the ocean; but the flag that the *Minnesota* carried for the last time was the only American flag in the Pacific. What wonder that the captain lifted his voice in lament for his country?

The history of the American Merchant Marine is essentially the history of the American nation. Without the growth of American commerce and the means of transport for that commerce the Colonies might have suffered the British yoke indefinitely; but even "before the War of Independence we had a Merchant Marine second to Great Britain," as Admiral W. S. Benson wrote in his preface to *Sea Power in American History*, "and before the War of 1812 and the Civil War we had a commerce equal to Britain's."

The political necessity for a national merchant service on the seas was voiced by Jefferson as early as 1791 when the United States was entering into the first of its periods of commercial integrity. "The marketing of our productions will be at the mercy of any nation which has possessed itself exclusively of the means of carrying them," he wrote; "and our politics may be influenced by those who command our commerce." Madison, really the father of the American Merchant Marine, began in the first Congress the

promotion of legislation for its benefit. Commerce, he believed, should be free, but the conduct of other nations prevented this course. Monroe, in his Act of 1818, benefited American shipping. During the time which immediately followed the passage of that Act American ships took American products abroad with profit, but the return journey had to be made in ballast, as Great Britain sought to send out exports to the United States in her own ships. Ship-owners conceived the idea of sending out freight and bringing back passengers, and the American passenger line service began. Great Britain subsidized postal steam passenger lines. Political policy brought about reciprocity, at first partial, then full in 1828. "From that time," writes W. W. Bates, "there was a constant decline in our carrying trade after our reciprocity conventions began to take effect." When we entered into reciprocity with Great Britain in 1815 our ships had been carrying 90 per cent. of our foreign commerce. In 1901 foreign vessels carried 91.8 per cent. of the foreign trade from the United States.

The Civil War had, of course, constituted one of the factors of the decay of the American Merchant Marine, but it was by no means the determining cause. From 1830 the Marine was decreasing, doomed to desuetude by the continuing short-sightedness of executives and legislators. In 1842 Daniel Webster, Secretary of State under Tyler at that time, promoted action, and Tyler sent to Congress a message showing the national importance of subsidizing the mail on a line of steamers to be established between New York and Havre. The Committee on Foreign Relations made a favorable report, but no action was taken, although the Parliament of Great Britain in the same year increased the Cunard

subsidy. In 1845, under the pressure of Thomas Butler King of Georgia, a mail subsidy was passed. It was, however, but part of a drifting policy. No distinction was made between uses and abuses of the subsidy idea, and the service naturally disintegrated. In 1834 there was established in England "The Society of Lloyd's Register of British and Foreign Shipping," an institution destined to play a tremendous part in the retrogression of American commerce. Lloyd's rule to give no vessel a full class rating unless it had been built under survey operated to the advantage of British shipping, and especially against American vessels, as Lloyd's sent no surveyor to the United States to inspect wooden ships in course of construction until 1901, although such surveyors were sent to other countries. A preferential insurance rate for iron vessels, 2 per cent. as against 2.5 to 2.75 per cent., also militated against the American wooden ships. For six years after 1870, just at a time when American shipping was beginning to recover from the disasters of the Civil War, American vessels were practically degraded by the Lloyd's rule refusing classification and registration to foreign vessels except for a year at a time. Not until exports of California grain to Europe under register of the French bureau Veritas showed a way to avoid the consequences of the rule was it rescinded. Volumes of protests from American consuls against Lloyd's ratings of American vessels are in the archives of the Department of State. Partly as a result of the system Great Britain had in 1900 165 per cent. more tonnage than she needed for her own carrying.

In the 'nineties of the last century the great pools for the merging of steamship interests began. The Castle Line and the Union Line merged, and soon after-

ward the North Atlantic Conference was established. Testimony before the Alexander Committee of the House of Representatives later showed that the great steamship lines, the French, the Cunard, the White Star, the International Merchant Marine, the North German Lloyd, and other less important companies, had organized themselves into a rate trust, and literally apportioned the world between themselves. In addition, they put into service what might be called fighting ships to destroy competition from any line not a party to their agreement. American private capital, either North or South, could not compete against such a condition, and the outbreak of the European War found American commerce paralyzed. A large part of American trade had been carried in German bottoms. The withdrawal of these ships left the nation dependent upon the British flag for transportation of its foreign commerce. The fact that Great Britain was at war placed American goods in constant jeopardy as well as making shipping rates almost prohibitive. The wharves of American ports were piled to the breaking point with goods awaiting shipment. American trade faced ruin as a result of the congestion. Europe was calling for American non-contraband goods, American producers and merchants were clamoring for the European trade, but the lack of American ships at that critical time held back the United States from her birthright of free commerce.

The Government of the United States, acting for the people of the United States, faced a situation fraught with political as well as commercial danger. McAdoo, speaking before the Commercial Club of Chicago in January, 1915, declared that it was "conceivable that a daring German squadron might get into the Atlantic

and play havoc with our commerce in British bottoms." Aside from the humiliation of dependency upon another power for the right to ship native goods, the question was complicated by the danger of involvements which might arise from those shipments. The minimizing of that danger devolved into a Governmental duty, and in the course of events the work of rebuilding the American Merchant Marine fell to the lot of the Secretary of the Treasury.

It was by no accident that the task came to McAdoo. The greatness of a nation depends upon the greatness of its traditions. Men of tremendous personal force have from time to time deflected their own countries from their national policies, but lasting national achievements have been the work of men animated by fundamental national ideals. That is, in the long run, the explanation of the success of McAdoo in public office. The great traditions of the United States were part of his blood. He knew democracy by instinct. He knew the principle of the freedom of the seas by the Floyd in him just as he knew the westward drift of American civilization through the McAdoo strain. The Floyds had been American sailors and American shippers, and many of the tales which Mary Faith McAdoo told her children in the big frame house in Milledgeville had for background the departed glory of the American Merchant Marine. The boy who had dreamed with passionate intensity over the pages of *Moby Dick* was bound to keep his mental vision of the splendor of the great days of American whaling, of the thrilling glory of a fleet of American merchantmen weaving the shuttles of commerce through the seven seas. Not because he was Secretary of the Treasury, a post which held responsibility for related financial arrangements

in a commercial crisis, but because he was William Gibbs McAdoo was he ready for action when the opportunity came to revive the greatness of the American Merchant Marine.

Out of the crisis of the early days of August, 1914, the opportunity developed. On the seventh of August, three days after the first serious effects of the involvement of the great European nations in war had become apparent, McAdoo issued a call to the country asking for the cooperation of the responsible bankers, business men and shippers to accomplish the restoration of American shipping so that the grain and cotton piled up in every port of the Atlantic and Gulf seaboard could be moved. To that end he called a conference of the leaders to meet in Washington.

The conference, beginning on August 14th, brought together the giants of American finance and industry, and was a significant precursor of the Governmental use of those elements which the United States was to utilize when it entered the waxing conflict. James A. Farrell, president of the United States Steel Corporation; P. A. S. Franklin, vice-president of the International Mercantile Marine; Bernard Baker, of Baltimore; and Robert Dollar, of San Francisco; James J. Hill, of St. Paul; Seth Low, president of the Chamber of Commerce of New York; John H. Fahey, president of the Chamber of Commerce of the United States; J. P. Morgan, James Speyer and Benjamin Strong, Jr., of New York came to the sessions among scores of other men of scarcely less fame.

McAdoo, addressing them, made announcement that the Government was willing and anxious to cooperate in the solution of the pressing problems of exportation, shipping and exchange. The delegates in turn assured

him that the business interests of the country were equally ready and willing to cooperate with the Government. Even with the official smoking of the calumet, the implication persisted that "Government" represented an idea antagonistic to "big business," and it was not the smallest part of his task to reassure these representatives of great interests that, with fair play, the antagonism need not be basic. To that end he stressed the need of cooperation, declaring that with determination and intelligent action the dangers of the situation to the United States could be minimized.

The consensus of opinion at the conference was that the three pressing questions of moment were the restoration of the market for foreign bills of exchange, the provision of means for transporting grain, cotton and other merchandise, and war risk insurance. The opinion, voiced by the conference both in expression on the floor and in passage of a resolution, that the Government should go into the business of war risk insurance marks the real beginning of Governmental war control and operation of transportation facilities, an issue that was to agitate the American nation for years thereafter. It was essential, the conference pointed out, that some protection must be offered foreign commerce unless it were to cease altogether. Since private capital could not engage in the business to the necessary extent it was advisable, even imperative, that the Government should. The undertaking of a war risk insurance by the Government should, the leaders pointed out, be temporary, and be conducted on a business basis, the Government to receive premiums for the insurance issued. There was hope that such action, enlarging the registry of American ships, would almost automatically solve the problem of the exportation of

grain and cotton, and the foreign exchange would then naturally take care of itself. Once let the United States get the ships moving, and exchange would find its equilibrium. In order to bring about this result as speedily as possible the conference resolved itself into a committee, with Seth Low as chairman, and adopted the following resolution:

"*Resolved,* That this conference representing the business interests of all sections of the country, expresses its high appreciation of the prompt and effective action of the President and Congress and the Secretary of the Treasury in affording a prompt solution of the currency difficulties created by the sudden outbreak of war in Europe on a colossal scale, and that this conference urges upon the Government, the Secretary of the Treasury and the Federal Reserve Board to continue its cooperation by adopting such measures and rendering such prompt assistance as may be necessary to enable the country to cope with the difficulties created by the unprecedented disarrangement of foreign trade now existing, and recommends that immediate assistance be provided to permit the negotiation of bills of exchange against the shipment of products to foreign markets so that the congestion already prevailing may be at once relieved and that the financial balance of trade may become in our favor.

"*Resolved,* That this conference urge the United States Government to establish a Bureau of War Risk Insurance, to be administered under the direction of a suitable Government department by a board of three or five members, which shall assume the risks of war on American vessels and American cargoes shipped or to be shipped thereon, whenever in the judgment of

the board it shall appear that American vessels or shippers on American vessels are unable, in any particular trade, to compete on equal terms with the vessels or shippers of other nationalities by reason of the protection afforded such other carriers or shippers by arrangement for war indemnity through their Governments, and that such board have power to fix rates of premium subject to change to each country or for every class of cargo.

"*Resolved,* That the present opportunity to extend American foreign trade and the opportunity now to begin the creation of a Mercantile Marine under the United States flag is so great that this conference appeals to Congress by immediate and effective legislation and by necessary change in our navigation laws to make it possible for our citizens without discrimination to buy and operate ships under American registry in foreign trade on equal and competitive terms with all other maritime nations."

The establishment of the War Risk Insurance Bureau in the Treasury, authorized by Congress on August 18th by an overwhelming vote even against the opposition of Mann, the Republican House leader, put the Government of the United States directly into the shipping business. Another bill, known as the Ship Registry Law, provided for the free registration of foreign-built ships which had come into American ownership, and permitted the President to suspend certain requirements of the navigation laws for such period as he might determine. These requirements were those to which ship-owners had made most strenuous objection on the ground that they were kept by them from competing with foreign labor, an objection

which, although he bowed to it in the emergency, McAdoo never believed valid.

The working out of the War Risk Insurance measure relieved but slightly the condition it had been designed to ameliorate. Even before the law passed Congress McAdoo had gaged its restrictions, but had recognized in it the lever for the ultimate passage of real legislation for Merchant Marine. In a penciled memorandum, written by him in the early hours of August 16th, after he had returned home from a session of the War Risk conference, and read by him to President Wilson at the White House on the evening of that day, he set down these informal statements which are the essential basis of the later American Merchant Marine:

"August 16, 1914.

"There is a big sentiment for the purchase, by the Government, of a large fleet of ships to supplement our transportation facilities to Europe, and to establish immediately lines to South America and Central America. We have an unusual opportunity for South American trade but without ships we can do nothing. With them we can quickly establish business and political relations that will be of inestimable value to this country—perhaps for all time.

"The Ship Registry Bill and the War Risk Insurance measure will not accomplish much. We shall gain few ships *immediately* because of these laws, and may gain a large number, if at all, very slowly. Private initiative in the present condition of demoralized and disorganized world finance is almost dead. To raise the capital for a sufficiently effective operation, through private agencies, is practically impossible.

"There is a decided objection to Government owned

and operated merchantmen. Complications of a grave nature might arise with belligerent nations, because of the operations of Government merchantmen. Our neutrality could easily be brought into question and a casus belli might easily result.

"But there could be no serious questions of this sort if our Government was only a stockholder in a company (American) engaged in maritime pursuits—even though our Government was a majority stockholder in such company.

"Government backing of such a company has many advantages:

"1—Government can always exercise a regulating agency upon rates, upon management, upon policy and upon the trade routes of the ships.

"2—Government will participate in the profits of the company.

"3—Government can secure itself for the capital or credit it furnishes, and, because of the stability the company will have by reason of Government backing, the company can always secure the additional capital required from private sources, on the most advantageous terms.

"4—The Government, if a large stockholder, will be jutified in encouraging the growth and development of world-wide commerce through the operation of the company's ships, by granting liberal payments for carrying the mails and thereby putting the company in position to successfully compete with heavily subsidized foreign ships.

"5—A splendid naval auxiliary and naval reserve would be created and made immediately available in time of war.

"All of this can be done with the use of a small

amount of actual money and the issuance of only twenty-five to thirty millions of Panama Canal bonds, now a part of the assets of the Treasury.

"I would suggest that Congress be asked to authorize the expenditure in money or in bonds (preferably bonds) of twenty-five to thirty million for the purchase of merchant ships.

"That authority be given to organize a corporation under state laws, with requisite capital (say $10,000,000) of which the Government shall subscribe $5,000,000 and the remainder be offered to the public; that the Government subscribe for any part of the stock which the public fails to take—in addition to the fifty-one per cent. hereinbefore referred to.

"That ships purchased by the Government be transferred to this company in consideration of the issue by the corporation of four per cent. bonds in an amount equal to the expenditures of the Government, the bonds to be a first lien upon the ships and all property of the company, ample provision to be made for sinking fund and depreciation charges."

The plan, hastily written though it was—it had not been hastily conceived, but was the sudden blooming of a long-growing racial ideal—won the President's approval and became the basis of the shipping bill which was taken to Congress only to be, as McAdoo later wrote, "filibustered to death." Even with the precedent of the purchase in 1902 by the Government of the capital stock of the Panama Railroad Company, which owned and operated a line of steamers from New York to Panama and which was, even at that time, serving both North and South American tangenting needs adequately, a combination of certain Democratic Senators

with Republicans in the Senate killed the bill. The same forces which had put the Federal Reserve in jeopardy were battling the Merchant Marine. McAdoo, knowing the line-up and the individual greed which was operating against the public good, plunged into the battle in full realization of its inevitable bitterness.

Nearly a year later, on August 1, 1915, after the defeat of the bill in the Sixty-Third Congress, while the conflict between the proponents and opponents of a merchant marine waged toward the crisis of another trial of strength in the forthcoming session, McAdoo stated the situation in a letter to Charles W. Gold, president of the Chamber of Commerce of Greensboro, North Carolina:

"It is time not only for the Southern people, but for all the American people, to look this momentous shipping problem squarely in the face. There are times when conditions are extraordinary, and we must resort to extraordinary measures, if necessary, to meet them. Why should the American people allow their interests to suffer because some are too timid to act, or too unintelligent to act, or afraid to utilize the great powers and resources of our Government to save us from a situation where private capital refuses to act? The paramount duty of the hour is to protect American rights and American interests, through the strong arm of our Government, which is the only reliable agency upon which the people may depend to solve national problems of such magnitude as those which now confront us.

"It is simply fatuous to hope that private capital will provide these ships. Private capital will not provide them, even if the navigation laws, about which there is so much irresponsible talk, should be changed as

private capital demands. I have never found even two capitalists who agree as to what changes should be made in our navigation laws. I have yet to find any man, who, although arguing that the only thing needed to create an American Merchant Marine, is to change our navigation laws, has been able to tell how the navigation laws should be changed to guarantee the enlistment of private capital. Our capitalists are not interested in the shipping business—not because they can not make money in the shipping business, but because they can make more money in other directions. However, they are not familiar with shipping enterprises and will not engage in them on any large scale, no matter what inducements may be held out. We can not afford to enter upon the scandalous policy of subsidizing private corporations or individuals. To subsidize is merely to make gifts from the Treasury of the United States to those of the strong pull and the long pull, and to repeat all the scandals and corruption which formerly characterized the enactment of our tariff laws. Instead of giving say fifty million dollars to subsidize any private interests, it would be far better for the Government to buy fifty million dollars' worth of ships and operate them in the interest of our commerce in time of peace and have them as effective naval auxiliaries in time of war.

"If you want South American trade; if you want world trade, the indispensable step is an American Merchant Marine to carry our commerce to the ends of the earth, under the protection of the Stars and Stripes. We shall never be able to carry our commerce to the ends of the earth under any foreign flag."

The prompt passage of the bill would undoubtedly have saved millions of dollars and inestimable prestige

to the American people. A very considerable number of ships could have been bought at that time which were not available later. Others could have been chartered, and still others ordered. Even if ships could not have been purchased immediately, the proposed legislation gave the company authority to lease ships, and a considerable fleet of vessels could have been assembled in a short time for the transportation of American products. The entrance of the American Government into the foreign carrying trade would have forced down rates to reason, and an immense amount of money would have been saved to the American farmer and the American manufacturer who shipped their goods to foreign markets. The markets of South and Central America were already open to the United States as never before, but the lack of ships kept out American producers. McAdoo estimated that the increased extortionate ocean freight rates paid by American shippers in the year following the defeat of the bill amounted to several times the $40,000,000 which the bill authorized the Government to expend on merchant vessels. Lumber and manufactures of wood declined during the fiscal year from $99,000,000 to $48,000,000. Even in the face of an extraordinary demand for coal from Spain, Italy, France and the Argentine, coal exports declined from $60,000,000 to $56,000,000.

The withdrawal from the seas of all German merchant ships, of all Austrian ships, and of a large English tonnage commandeered by the British Government for war purposes, as well as the destruction of a large amount of English merchant tonnage by German cruisers, reduced the world's supply of merchant tonnage. The shortage gave to steamship companies opportunity to assess exorbitant freight rates upon shippers, and

these were raised above normal all the way from fifty per cent. to 1,100 per cent. The extraordinary demand for grain kept grain moving to foreign markets in spite of the cost of transportation, but exports of other staple products and all manufactured articles slumped because of the rates, which had to be paid ultimately by the producer as the added cost to the consumer kept down consumption.

With more than fifty per cent. of American export and import trade dependent upon English tonnage, the announcement of the German Government in February, 1915, of a war zone around Great Britain and Ireland and the warning that neutral shipping keep out of that zone resulted in a tightening of the American commercial situation. Although the War Risk Insurance Bureau had succeeded in reducing rates for insurance from thirty per cent. to three per cent. on voyages in the North Sea, and from nearly fifteen per cent. to less than one per cent. on voyages to South American ports, high freight rates to the shipper still held in ships not under American registry. The crying need of American commerce was American ships. From August, 1914, when the Shipping Bill was introduced into the Sixty-Third Congress, until May, 1916, when it was passed, although in somewhat shifted form, McAdoo labored to that end.

His belief that the issue of the Merchant Marine was paramount to party lines was not shared by either Republicans or Democrats in the Senate, although La-Follette, whose championship of the Seamen's Bill had aroused the wrath of the shipping interests, came out in valorous defense of the administration's measure. Stone, of Missouri, brought in the bill as a party measure, possibly feeling that this might be the only way

of saving it in the face of the opposition which had developed by January of 1915. The very men who had voted in haste for the Ship Registry Bill, which opened the way for foreign complications, but which gave immediate relief to American ship-owners who had operated their vessels under foreign flags until the war conditions had made such operation unprofitable and dangerous, now raised the cry of the danger of foreign complications if the Government should go into even limited ship ownership. The hypocrisy of the opposition threw McAdoo into one of the few tearing tempers of his time in office. Through the period when he fought for the passage of a measure which he earnestly believed would serve the nation as a whole rather than any specialized power within the nation he made speeches, wrote letters and gave interviews blazing with denunciation of those who blockaded the Shipping Bill.

"As for 'vicious principle of Government ownership and operation' this is too much for my patience," he wrote to George W. Norris of Philadelphia. "The Republicans put the Government into the steamship business between New York and Panama. They put the Government into the express business, namely, the parcels post. They put the Government in the savings bank business, namely postal savings; but I need not enumerate. It is a mere dogma which is not entitled to the sanctity accorded to it, and certainly ought to be disregarded as against the vital interests of our country. Those vital interests are really involved in the maintenance and expansion of our foreign trade. We can maintain and expand that trade only as we have a Merchant Marine, and as certainly as the sun rises to-morrow, private capital will never give us the

Merchant Marine on any terms which the people of this country can consider. The only way to get it is through direct action of the Government."

In a speech before the Chamber of Commerce of the United States on February 4, 1915, the Secretary, referring to the claim of private capital to consideration as against public benefit, declared that the situation on the Shipping Bill reminded him of the colloquy between Weber and Fields in a bygone show where Fields had suggested to Weber that they organize a "skindicate" to go into the shipping business. "But where do I come in?" asked Weber. "Well," said Fields, "I furnish the ocean, and you furnish the ships." Private capital, he drew the analogy, had furnished the ocean for fifty years, and the foreign competitors of the United States had furnished the ships which now in some cases were earning an interest rate of 1,100 per cent.

"What is Government for?" he cried in one of those outbursts of righteous wrath which marked his war against privilege. "Is it something in a straitjacket? Is it sitting in a corner like a thing with palsied hands afraid to act, or is it something vital? Is it a flexible instrument in the hands of the people of this country to be used within constitutional limitations for their relief and for their benefit? Is it intended to be something to act in this emergency, something to come to the front and do things for the American people when private capital can not be commanded or commandeered or persuaded to that purpose? It does not seem to me that there is room for argument . . . but I do want to say with all the sincerity that I can command, that for some reason, some are more concerned about the Government not relieving the situation than they have been about anything that has come before the

American people within my lifetime or within my knowledge, except the Currency Bill."

Afterward McAdoo was to characterize the Chamber of Commerce speech as a "rough-and-tumble." While it was marked by informality of presentation, it was anything but that, except in its motive power; for it stands out in the tens of thousands of documents which go to make up the record of the legislative fight for the American Merchant Marine as one of the remarkable pronouncements of its time. Not only is there more of McAdoo's personality in it than in any other public utterance of his office before the United States went into the war, but there is also more of the feeling of conflict between the two interests which have struggled for years for supremacy in American official life.

Just before the adjournment of Congress in March, 1915, and the defeat of the Shipping Bill, Senator Lodge launched upon it an attack of particular violence which intimated that the Hamburg-American Steamship line was interested in the sale to the Government of interned ships, and called attention to the fact that one of the three directors of the German bank formed to finance that line was a brother of Paul M. Warburg. Later, with the defeat of the bill, Lodge felicitated the American people upon it, saying that it had been "the intention, if the bill had been passed, to buy the German ships imprisoned in our ports to avoid capture. Of this fact there can be no doubt, and the refusal to put in a clause prohibiting the purchase of belligerent-owned ships, which might have passed the bill, demonstrated it."

The Secretary of the Treasury, in answer, declared that, had the bill passed, the President would not have sanctioned the purchase of any ship that would have

caused complications with any power, citing in proof the President's interviews to those Senators who had sought information. He further called attention to the fact that the Ship Registry Bill, for which Senators Lodge and Root and their colleagues had voted, had already authorized any American citizen to buy a belligerent-owned ship and transfer it to American registry. The refusal to put in a clause prohibiting the purchase of such ships had been actuated by the fact that this amendment would have been an inexcusable surrender of the rights of the American nation. "The administration would not pay for the passage of the Shipping Bill by such a disavowal of American rights as was involved in the adoption of Senator Lodge's amendment," he concluded.

Upon the adjournment of the Sixty-Third Congress there began a definite, directed movement for the passage of legislation which would prevent possibility of the successful passage of the Shipping Bill in the following Congress. By August the campaign had grown bitter. From Maine, where he had been ordered by his physicians but where he conducted his work with a staff as if he had been in Washington, McAdoo wrote the President this summary of the situation:

"North Haven, Maine,
"August 27, 1918.

"Dear Mr. President:

"The sale of the Pacific Mail steamships to the Atlantic Transport Company, which, as you know, belongs to the so-called Steamship Trust, namely, the International Mercantile Marine Company, was inspired by considerations largely foreign to the Seamen's Bill. In the eagerness, however, of the ship subsidists and

steamship monopolists to hurt the administration and prevent the Government from doing anything effective to relieve the shipping situation, the Seamen's Bill is charged with the responsibility. There is a highly organized campaign to make the country believe that the Seamen's Bill alone is the cause of our failure to have a Merchant Marine, notwithstanding the fact that we had no Merchant Marine before it was passed and it has not yet actually gone into effect.

"I wrote Chairman McChord immediately, and suggested that the Interstate Commerce Commission make a very careful investigation of the transfer of the Pacific Mail ships to the Atlantic Transport Company. The transfer of these vessels to the North Atlantic trade and to the coastwise trade gives opportunity for very much greater profits than in the Pacific trade; but the withdrawal from the Pacific is going to have a very bad effect upon our Oriental trade, which is already suffering because of insufficient facilities.

"This kind of violent and arbitrary action on the part of privately owned steamship companies is another strong argument in favor of Government direction of steamship enterprises. Here is a steamship line controlled by private capital, which has been in operation for many years, and upon the maintenance of whose service trade interests and trade relations of large proportions have been established. All of a sudden, without adequate warning or justification, these long established trade interests find themselves bereft of essential service to their great hurt, and, perhaps, permanent injury. Our Government is not only powerless, under existing law, to prevent such arbitrary and harmful action by private steamship corporations, but is also without power to operate its own ships—army trans-

ports, for instance—for commercial purposes. If the Shipping Bill had been passed, the Shipping Board could easily deal with and meet just this kind of a situation. The Pacific Mail Steamship Company would not have dared to do what it has done, if it had not been able to throw dust in the eyes of the American people by claiming that the Seamen's Bill necessitated its arbitrary, selfish and unjustifiable action.

"I do not know what the law is about the use of army transports, but I would respectfully recommend that you strain your authority to the utmost to make the few army transports now in service put their facilities, to the utmost limit, at the service of the commerce of this country and of the Philippines and the Orient. Even this will offer small relief in the situation, but it is better than nothing.

"One of the greatest complaints of our importers and exporters is that foreign, as well as American, steamship companies change their rates arbitrarily and without notice, and diminish, or absolutely discontinue, the service of their ships without notice, or upon wholly insufficient notice. In fact our foreign trade, in bound and out bound, is completely at the mercy of conscienceless steamship owners.

"I presume you have noticed the extraordinary efforts now being made by men, always identified with the trusts and selfish interests of the country, to organize a certain kind of exclusive marine club, limited to five hundred members each, and with membership dues of $250. It is now announced that such a marine club will be organized in each one of the twelve Federal Reserve districts of the country. On this basis, each club will have a fund of $125,000, and the twelve clubs will have a fund of $1,500,000, which is to be

used, according to the handsomely engraved prospectus, for the purpose of 'educating' the people of this country to the importance of a Merchant Marine. The scheme is a plain subsidy proposition, and an attempt will be made to force a subsidy, or subvention, scheme through the Congress at the next session. All this is done under the guise of a benevolent purpose to serve the American people. In truth, it is the most brazen attempt to raid the Federal Treasury, through a highly organized paid propaganda, of large proportions, that I have yet seen.

"Unless the administration takes a vigorous and definite stand now in favor of the Shipping Bill proposed in the last session, or in favor of some definite measure, the subsidy measure may succeed. I think the country is at last alive to the imperative necessity for the prompt creation of an American Merchant Marine. Unless we guide this sentiment in the right channels, and prescribe the proper remedy, the subsidists might win, because the people may even come to believe that a Merchant Marine, supported by large gifts, or bonuses, from the Federal Treasury is better than no Merchant Marine at all. I think Secretary Redfield and Secretary Wilson should make clear statements to the country about the Seamen's Bill and expose the false claims now being made by the opponents of that measure. Of course I know that there are some reasonable objections to the Seamen's Bill, but they are nothing like so serious as the country is made to believe.

"Faithfully yours,

(Signed) "W. G. McADOO.

"The President,
"The White House,
"Washington, D. C."

In October a trip to the Pacific Coast convinced the Secretary that informed public opinion supported the Seamen's Bill, which was being used as leverage against the passage of the Shipping Bill, and he redoubled his efforts to place the issue squarely before the people of the country. He even suggested the use of Government ships to relieve the congestion of Pacific ports, a suggestion which the President favored, but which the War and Navy Departments declared impossible to utilize because of the lack of sufficient vessels. From his contacts with the public—and some of McAdoo's best service as a public officer came from his ability to make these contacts—he derived new strength to fight for the measure; but he decided that, instead of forcing the situation, he would allow the march of events to do that for the bill, knowing that, in time, even its most strenuous opponents would see that they had no alternative in the face of the widening circle of war. For, seeing the amazing surface prosperity of the country at the time, he also saw that, without adequate foreign markets, the nation could not have stable prosperity; and he realized that in time even selfish interest would bring his antagonists to the same point of view. Understanding of this situation and a journey to South America which was vitally concerned with the immediate international situation as well as with the larger question of amity kept him from the type of campaign he had conducted during the preceding Congress. His speech for a Naval Auxiliary Merchant Marine before the Indianapolis Chamber of Commerce in October, 1915, was one of the few notable public utterances on the question; but he was none the less sawing wood.

On the seventeenth of February, 1916, he appeared

before the House Committee on the Merchant Marine and Fisheries in a hearing upon the bill designed to create a Shipping Board, a Naval Auxiliary and a Merchant Marine. Joshua W. Alexander, of Missouri, afterward Secretary of Commerce in President Wilson's Cabinet, was Chairman of the Merchant Marine Committee of the House and rendered valiant service in the passage of the bill. McAdoo's testimony on that occasion was unquestionably one of the motive forces in the swing of legislative action in that it crystallized the issue at the battle front. Always McAdoo was at his best upon a witness stand where his keenness gave him a fighting blade. In the Merchant Marine hearing he drew from some of his antagonistic questioners the very information he wanted to have in the record. From Curry, of California, who was trying to lead him into a statement that a Government-owned ship would constitute a greater danger to the continuance of neutrality than a privately-owned American ship, should it be attacked, he brought out the statement that E. H. Harriman had told Schwerin when the latter had presented to him the proposition of selling the Pacific Mail to a Japanese line, "I won't do it. I am too good an American. If I sell the Pacific Mail to the Japanese to-day, Jim Hill would sell his to-morrow, and the result would be that the American flag would probably be eliminated from the Merchant Marine of the Pacific, and that will never happen during my lifetime." From one after the other of his examiners he drew significant statements which built up his own case.

Public opinion, aroused by his undeviating leadership, finally brought the bill to the floor of the House and the Senate. The pressure of war events swung the

antagonists of the measure to the point which the Secretary had believed inevitable, but party lines still held when the bill came to a vote. On September 5, 1916, two years after its original presentation and in a modified form, the Shipping Bill was passed by Congress, the House voting 211 for and 161 against, and the Senate 38 for and 21 against. Of the 161 voting against the bill in the House 160 were Republicans, and the entire 38 in the Senate were of that party. On September 7th, after a telephone conference with McAdoo, the President signed approval of the measure.

The bill, while not giving to the Shipping Board which it created, the wide powers of the British Board of Trade, nevertheless raised a bulwark for the protection of American shipping. It outlawed the "fighting ship" practise of the great steamship combinations, and assured American carriers of protection against unfair and discriminatory practises. It also gave the board $50,000,000 for the construction and purchase of merchant ships suitable for naval auxiliaries and for the commerce of the United States, and provided that these ships might be leased or sold to American citizens, the Government holding the right to repossess itself of these ships under fair conditions whenever they should be needed for naval or military purposes. The board was empowered to establish a line of steamships to South America and other places under conditions that would not interfere with American private enterprise in the field. The board was also required to give private capital, through competitive bids, opportunity of operating any lines which the board might establish.

"No student of our past history and no man with any vision of the future," McAdoo wrote on the day of the

President's approval of the measure, "can fail to see the imperative necessity of our Government doing whatever may be possible to open up and enlarge our foreign trade throughout the world and particularly with South and Central America and the Orient. The Monroe Doctrine, by preserving the independence and integrity of the South and Central American Republics, has made them the most independent open markets in the world to-day. The expansion of our foreign commerce is of paramount importance to our prosperity and welfare as a people. Let us have a Merchant Marine under the American flag through private capital if we can get it, and let us always encourage private capital by every reasonable means to provide such a Merchant Marine."

The creation and the appointment of the Shipping Board to administer the law which McAdoo had formulated, and for which he had fought against the same forces which had combated him in the Federal Reserve naturally took from him the responsibility for further active interest. The measure was, however, peculiarly dear to him. His voyage to South America in 1916 had demonstrated to him the righteousness of his judgment in promoting the Merchant Marine of the United States. He saw a vision of the Americas united by commercial as well as by idealistic interests, and appreciated that nothing but ships and more ships could span actual distance and previous indifference. With the European War pressing closer every day, he realized all too keenly the need of South American friendliness. He himself had a warm friendship of feeling toward the Latin-American republics which he sought to express by deeds. He had, too, the strong

sense of nationalism which urged him toward expression of his emotion for his country by work for her welfare. The United States of McAdoo's seeing was a distinctly national figure, without malice, but with the strength of defense, a land which should be fearless as well as righteous. The intensity of his hope for the Merchant Marine doomed him to disappointment in its working out, for, in spite of what it accomplished, he could not be satisfied with any performance short of perfection.

Although the correspondence which he had with members of the Shipping Board and with the President relative to questions pertaining to the board was notably brief after the board began to function, some of it is fraught with poignant import. A letter to the President on February 5, 1917, two days after the latter had laid before Congress the official announcement of the Imperial German Government that it was its purpose to use its submarines to sink every vessel that sought to approach the ports of Great Britain and Ireland or the western ports of Europe or any of the ports controlled by the enemies of Germany in the Mediterranean, recommended the issuing of a proclamation that "a national emergency does exist" lest a large part of the tonnage under the American flag might be transferred to foreign flags. Such a proclamation would, McAdoo pointed out, make such transfers, already in progress, and detrimental to the United States, impossible without the consent of the Shipping Board. He urged immediate action, a request which the President heeded.

Not until the ending of the war did he send another important communication to the President concerning

marine policy. This one voiced his protest against the transfer of British ships owned by an American corporation to the British Government. "I believe," he wrote, "that this Government should not permit these ships to be transferred but should insist that their American ownership, although under British registry, should be preserved. I believe that strong representations to the British Government will result in their recognition of the justice of such a request. I think we should go further and secure the transfer of those American-owned ships of British registry to American registry. As you know, we have been extending liberal credits to the British Government, and as a result of the relief America has afforded in this way, Great Britain is now in a position to buy these ships. It would requite us in an extraordinary way if Great Britain should take advantage of the strength we have imparted to her to strike this blow at America's essential ocean transportation system."

No man with a clear definite vision of national power inspired by practical patriotism can go far astray in his administration of fundamentally right laws, and McAdoo had in his relation to the Merchant Marine a clearer vision of American integrity than most public officers of the Republic from the time of its founders. Had he accomplished no other result during his time in office than the revival of American public interest in American shipping, he would have played a great part, for he rekindled thereby an essential fire of the national spirit. If American ships go to-day to the great ports, far and near, of the world; if American steamers cross the line on Atlantic and Pacific; and if the American flag floats to winds which had not lifted it for nearly a century, the American people

can thank the American tradition which William Gibbs McAdoo canalloned from the Davy Jones locker of a neglect that was fast rotting it into a forgotten ideal of a national life.

CHAPTER IV

Internal Problems

GREAT problems, within or tangenting the Treasury, and intensified by the war abroad, clamored for McAdoo's attention, either by their appeal to his human interests or by their bearing upon the national integrity. Some of them, notably the problem of the American farmer, appealed to him from both aspects. National prosperity had to be predicated, if it were to be solid, upon agricultural prosperity. His first months in office showed him how desperate, in many instances, was the lot of the farmer. By his action in making the Government, instead of the money speculators, the agent of crop-moving funds he had improved the situation, but deeper investigation into the situation which backgrounded these yearly crises in American agricultural life showed him a condition which aroused his championship of the men who suffered from it. His impulse toward the Farm Loan Bank System may have been urged by academic consideration; but his ardent emotion for its success was the result of his early farm life and of his meeting with the thousands of farmers who attended the hearings which the Farm Loan Board conducted throughout the country for determination of the exact status of the situation.

"I never heard anything more pathetic than the stories of those men," McAdoo said of it years afterward. "They were so toil-worn, so patient, so wronged by the injustice of the old system that they themselves were stronger arguments than any words they could utter."

Back of the sympathy he felt for them blazed an iron determination to better the road. Step by step he had worked out a method which seemed to cover the case. With a few changes it had become the Federal Farm Loan Bill, or Rural Credits Act, which was passed by Congress and approved by the President on the seventeenth day of July, 1916. The bill made effective a great volume of farm credit hitherto withheld and probably more than $500,000,000. It provided for the division of the United States into twelve farm loan districts, and the establishment in each of a Federal Farm Loan Bank, each bank to have a capital of $750,000. The banks had the right to issue bonds secured by first mortgages on farm lands to an amount equal to twenty times their capital stock. Where the public did not subscribe the full amount of capital stock of any bank, the Government subscribed it.

The essential function of the Federal Farm Loan Bank system was to provide credit for the farmers of the United States on long-time mortgages on the amortization plan, ranging from five to forty years, at low rates of interest, in no event exceeding six per cent. In the hearings which the Farm Loan Board held through the Northern and Central States it was everywhere disclosed by the testimony of the farmers that it was practically impossible for them to secure loans below $1,000 on farm mortgages at any price, and that the great mass of small farmers in the nation were unable to improve and develop their farms because they could not get essential credits. It was also shown that on farm loan mortgages above $1,000 the rates ran all the way from five per cent. a year to sixteen per cent. a year, and it was difficult in most of the

states to secure mortgages on farms even where the security was unquestionable.

By the new system ten or more farm owners, wishing to borrow on mortgage for a long time at reasonable interest, could unite to incorporate their own local realty bank, known as a National Farm Loan Association, which required no building and which operated at practically no expense. Each farmer paid five dollars for one share in the association for every hundred dollars he wished to borrow upon his farm, the mortgage to be a first mortgage and not to exceed half the farm's value. His liability for the debts of the association was limited to ten dollars. The association indorsed each member's mortgage notes, cashing the same for the full amount at the Federal Land Bank of its district, and turned all the money over to the borrower. Annually or twice a year the borrower paid a regular sum set down as dues, and including interest on the loan, an infinitesimal sum for operating expenses, and a balance to be applied on the principal. The Federal Land Bank sold bonds secured by the indorsed mortgages, and thereby secured more money to lend. The twelve banks were jointly and severally liable for the bonds. All notes, shares, bonds, capital and surplus were tax exempt since the land is taxed. It was a law "not perfect," as Herbert Myrick, authority on American farm finance and author of a book entitled *The Federal Farm Loan System* wrote, but "the Magna Charta of American farm finance." It was, in fact, the first legislation for adequate farm credits ever passed in the one hundred and twenty-seven years of American Congresses.

The Farm Loan Board, with McAdoo as chairman, and George W. Norris, Charles E. Lobdell, W. S. A.

Smith and Herbert Quick as members, went into office on August 7, 1916. Before the board could put the banks well under way the entrance of the United States into the World War intervened. "One of the tragedies of the war," McAdoo once said, "was the postponement of the measures of peace." The demands of the war for credit were so imperative that it was necessary to stop public offerings of Federal Farm Loan bonds. Because of the necessity, however, for keeping the land banks in operation upon the request of the Secretary of the Treasury, Congress authorized the Secretary of the Treasury to buy, during the years 1917 and 1918, bonds of the Federal Land Banks not exceeding $100,000,000 a year. This took care of the emergency, but it retarded the public appreciation of the value of the securities. Later, however, the land banks were to function according to their intention, weathering even the attack upon their constitutionality in 1920, and finding their place as bases of a great public system of rural credits which within a few years was accepted by the nation as less a miracle than a matter of course.

It is an interesting fact that after McAdoo had resigned as Secretary of the Treasury, he was employed as counsel to defend the Federal Farm Loan Act against the attack upon its constitutionality made in the United States District Court at Kansas City, Missouri, in 1919, by the Farm Mortgage Bankers' Association through a suit brought by Smith vs. Kansas City Title and Trust Company. McAdoo, in association with Charles E. Hughes and George W. Wickersham, argued the case in the district court and secured a favorable decision. Subsequently the Supreme Court of the United States affirmed the con-

stitutionality of the Federal Farm Loan Act on an appeal taken from the decision of the United States District Court at Kansas City. Thus was secured to the farmers of the United States the benefits of this great amortization farm mortgage loan system.

The ordinary routine of business of the Treasury of the United States is in itself a task usually requiring for direction one man's entire energy. The multiplicity and importance of the tasks which fell to McAdoo's lot outside the regular course of the work of the Secretaryship might suggest to the uninformed some slighting of the work in hand. That this was by no means the case is shown by the growth of the various bureaus of the department in the years from 1913 to 1917. Even without the stimulus of wartime activity these bureaus increased in power and ability under McAdoo's guidance. From the Coast Guard—which saved more than twelve hundred lives in 1916—to the Public Health Service, which functioned most effectively in the epidemic of infantile paralysis of that year, the various branches of the service enlarged and improved, as is shown by the reports made by them each year to the Secretary. In three years of McAdoo's Secretaryship the Bureau of Internal Revenue discovered over eight millions of dollars of corporation excise taxes unpaid during the years from 1909 to 1913, and unearthed more than twenty-seven million dollars of unchecked oleomargarine frauds.

The campaign of 1916, with war as its issue, was waged in bitterness scarcely less corrosive than that of 1860. The Democratic party, as a whole, stood back of the President on the policy of neutrality. The Republicans, using as leverage Wilson's refusal to wage war against Mexico when the outward circumstances

seemed to have warranted it, practically committed themselves to war with Germany, should they come into power. The President had not abandoned hope that war might be averted, and the spontaneous slogan of the St. Louis Convention, "He kept us out of war," made appeal to thousands of Americans who rose above partisanship to aid in the continuance of the peace efforts. That the President had no intention of carrying these efforts to the point of national humiliation was clearly shown, however, by the speech on September 2nd when he accepted the nomination.

"We have been neutral not only because it was the fixed and traditional policy of the United States to stand aloof from the politics of Europe and because we had had no part either of action or of policy in the influence which brought on the present war, but also because it was manifestly our duty to prevent, if it were possible, the indefinite extension of the fires of hate and desolation kindled by that terrible conflict and seek to serve mankind by reserving our strength and our resources for the anxious and difficult day of restoration and healing which will follow, when peace will have to build its house anew.

"The rights of our own citizens of course became involved; that was inevitable. Where they did this was our guiding principle: that property rights can be vindicated by claims for damages when the war is over, and no modern nation can decline to arbitrate such claims; but the fundamental rights of humanity can not be. The loss of life is irreparable. Neither can a direct violation of a nation's sovereignty await vindication in suits for damages. The nation that violates these essential rights must expect to be checked and called to account by direct challenge and

resistance. It at once makes the quarrel in part our own. These are plain principles and we have never lost sight of them or departed from them, whatever the stress or perplexity of circumstance or the provocation to hasty resentment. The record is clear and consistent throughout and stands distinct and definite for every one to judge who wishes to know the truth about it."

McAdoo, touring the country in the campaign, amplified and enlarged upon the President's staunchness of attitude. In the speeches which he made through that time he was a crystal of illumination upon Wilson's position. Out of his temperamental quality of generous admiration and not from the chance of his marriage into the President's family, he gave Wilson the warmest cooperation which any Cabinet officer in a critical period has ever given to his chief. His letters to his close personal friends throughout that time reveal a sympathetic loyalty to Wilson which animated him to splendid partisanship. It was in essence an outcropping of the Cavalier strain, and the blade which he swung in defense of the Wilson policies toward the war was as bright as it was keen. The campaigning was actually the beginning of McAdoo's subsequent tremendous service to the nation in bearing, like a modern Paul Revere, through the Liberty Loans, the message of the spiritual aspect of the war to every village and farm. Concrete in his expression of the ideals involved, he presented issues with a colloquial ease which lost none of their essential fire.

He himself had to stand for counter-attack in the campaign when the suit of the Riggs Bank against the Comptroller of the Currency and himself, charging them with conspiracy to wreck the business of the

institution, came to a trial which, however, did more than vindicate him. Root and Lodge, the intellectual leaders of the opposition, measured him as the most dangerous antagonist, barring the President, to their intentions, and accorded him the distinction of an adversary in appreciation of the fact that it was his measures, the Federal Reserve, the Farm Loan and the Merchant Marine, which were revolutionizing the financial aspects of the United States. The victory of the Democratic party, in 1916, was in no small measure a vindication of McAdoo also; and his continuance in the Cabinet was one of the President's first considerations, for on the eighteenth of November he wrote, "One of the best things about the result is that it means four more years of active association in public service, and in that I genuinely rejoice."

CHAPTER V

Latin America

LATIN America, the Cinderella of national groups, has been to the people of the United States, in spite of the Monroe Doctrine, a neglected opportunity. One of the most serious errors of American foreign policy has been a failure to appreciate the advisability of close relationships with the South and Central American Republics. The barriers of distance and language, both of which might have been overcome by slight but well-directed national effort, kept apart two groups of people who had the common bond of basic democracy until to the Latin American the United States became a materialistic monster in the pursuit of the almighty dollar, and to the North American the southern republics were comic-opera, light-fiction hotbeds of revolution.

Even in ordinary times the neglect was stupid. From the time of Monroe, when by proclamation of American championship of the rights of the Western Hemisphere he insured the liberties of the Latin countries within it, the United States took practically no measure of developing friendship with them until in 1889, James G. Blaine, whom McAdoo characterized as a "a statesman of truly continental vision," arranged the first Pan-American Conference. Some of the Latin representatives came with scarcely-veiled resentment against what they considered an intrusion on the part of the United States to settle differences between them, but the results of the Conference disarmed suspicion, and later conferences in Mexico City, in Rio Janeiro, and in the Buenos Aires, developed a

cordial diplomatic relationship between most of the countries involved and the United States.

There was existent, however, none of the broad trade relationships necessary to bulwark the superstructure of diplomacy, and the delicate adjustment of the Americas was more than once periled by questions of pride and prejudice. One of these was the Colombian Treaty, a storm area inherited by the Democrats from their Republican predecessors. One of President Taft's last official acts had been the transmission to the Senate of the report of the Secretary of State, Philander C. Knox, declaring the impossibility of continued negotiations with the Colombian Government on the matter of reparations for the cutting of the Panama Canal through territory claimed by Colombia. In June, 1914, President Wilson submitted to the Senate a treaty signed at Bogota on April sixth, between the United States and the Republic of Colombia. It was not until March 14, 1917, however, that the treaty was brought out of committee into the Senate with three amendments which emphasized the right of the United States in the building of the canal. Knox, then in the Senate, voted for it as a matter of policy toward South America—the very point for which the administration had aimed—but Lodge, McCumber, Borah, Brandegee and Fall voted against it, presenting a minority report, in spite of which the treaty was passed.

The overthrow of the established Diaz Government of Mexico and the resulting conditions of chaos in that republic projected its menace across the border and became one of the most poignant issues of the first Wilson administration. The President, acting upon a policy which he had declared three weeks after his

inauguration, "refusal to extend the hand of welcome to any one who obtains power in a sister republic by treachery and violence," refused to recognize the new Government. Pressure of every kind, some of it fanatically honest in its zeal to make the United States the policeman of Mexico, was brought to bear upon him, but to no avail. It was a policy which he had expressed because of rigid belief in its righteousness. From first to last, non-recognition of revolutionists, until they had proved their right of representation by honestly conducted election, was his creed.

The financial factor of the Mexican situation brought the Secretary of the Treasury into the affair. On October first he sent to the President this letter:

"October 1, 1915.

"Dear Mr. President:

"If the present conferences about Mexico should result in our recognizing a Government there, one of the most serious problems it will have to face immediately is finances. No Government will be able to sustain itself long, if at all, unless the means for rehabilitating the railways of Mexico, carrying on the Government itself, and paying the defaulted interest on the national debt, to say nothing of the payment of other pressing obligations, are provided. No Government in Mexico will have the credit at the outset to raise the necessary fund. From all I can learn, at least $100,000,000 will have to be provided. The claims for damages to the property of our citizens and foreigners will alone amount to a huge sum, and these claims will no doubt be pressed vigorously as soon as there is an established Government. Confidence in the stability of any Government in Mexico will be delayed for a long

time; the Government will have to prove itself before bankers or investors will be willing to give it credit. The more I think of this problem, the more I am convinced that unless this Government is prepared to extend in some way financial assistance to Mexico, it will be impossible for her to finance her necessities.

"Certainly no proposition looking to the guaranteeing by this Government of the obligations of a Mexican Government could be entertained. There is, however, one way in which this Government could give Mexico needed financial relief. We could well afford to pay an excessive price for lower California and for the neutralization of a strip or zone along our frontier, this zone to be of sufficient width to prevent the disturbances and disorders on our border which result whenever there is a revolution or civil war in Mexico. I should think that the Mexican Government would be most willing to enter into an arrangement of this kind with the United States. I am satisfied that public opinion in this country would enthusiastically support such an arrangement if it could be made.

"This is not an original idea of mine, although I have often thought about it. It has been suggested to me from time to time by men in different parts of the country who have thought the problem over and have reached the same conclusion independently of each other. I submit it to you merely for what it may be worth. It seems to me that if the thought has merit, the time to put it forward is while we are considering the recognition of a Government in Mexico. Possibly we could make it a condition of such recognition. I feel confident that if some such plan could be carried out so that everybody would know that the new Government would have the financial resources to sustain

itself, pay all defaulted obligations and just claims arising out of the revolution, and to restore Mexico's credit and set her industries again in motion, it would be a very powerful factor in giving stability to the new Government and insuring its success.

"Faithfully yours,

(Signed) "W. G. McADOO.

"The President,
"The White House."

He had already promoted the Pan-American Financial Conference, which met in Washington in May, 1915, and which was to be productive of the establishment of closer bonds between the United States and Latin-American countries. Not only were many difficulties ironed out by the meeting, but the creation of the International High Commission brought about a cordiality of relationship which aided in making the Monroe Doctrine an economic as well as a political factor. The success of the commission in finding common ground for North and South America was due in large measure to the sympathetic zeal of its secretary, Doctor Leo S. Rowe, who had attended two South American universities as well as an American one in his youth, and who later became the head of the Pan-American Union.

"The whole theory of our organization of the International High Commission," McAdoo wrote the President, "is to bring about a more effective cooperation in commercial and financial matters and to secure uniformity of laws on various important subjects. The whole thing is a violation, in a certain sense, of old precedents, many of which ought to be shattered as quickly as possible for the purpose of bringing about

the results which are so important to all the countries concerned."

"Have you ever reflected upon the interesting fact," he inquired of the President in a letter on Latin-American relationships written January 3, 1917, a time when the country was awakening to what he had long known of the importance of these friendships as a war asset, "that the Monroe Doctrine, which has, in effect, secured the political independence and territorial integrity of the various Latin-American countries from European interference, has produced an effect never contemplated by President Monroe and his advisers? They considered only the political effect. It has had a remarkable material and economic effect as well, by saving the Latin-American countries from European colonization. These countries are to-day the only ones in the world, outside of the Orient, where the United States has and will continue to have the right to trade openly upon exactly the same terms as the most favored nations of the world."

That the Latin-American policy should be pushed "with unabated strength and intelligence" he urged the establishment in the State Department of a bureau of Latin affairs, to be accorded the greatest possible dignity, and to cooperate with the International High Commission. He recognized, however, that general public lack of knowledge concerning the advantages of Latin-American relationships was the cause of a large part of the general indifference. He himself in the midst of pressing duties of other kinds realized that the need of promoting these relationships was paramount, and he therefore attended in the spring of 1916 the Pan-American Conference in Buenos Aires. He returned with ardor for South American achieve-

ments, and a gospel of the teaching of South American opportunities, although he was careful to emphasize that no exploiters need apply. "The welfare of each depends upon the prosperity of all," he declared as his concept of international relations in a speech at the University of North Carolina in May, 1916, months before the United States entered the European War.

Only a man to whom details of the conflict in the fields of Flanders and of France were matters of every-day actual and vital information could formulate an approximate idea of the hideous face of the monster. McAdoo, working back of the President in vain endeavor to stem the tide of war even while he foresaw the inevitability of it and laid foundation for machinery to combat it when it should come, knew better than most Americans the toll the war would take. His childhood had been oppressed by the visible results of one war. There is a photograph of him taken in his early boyhood which is marked by the sadness of a child who has looked on great sorrows. His youth had been a struggle to rise out of the conditions, economic and social, which had come in the wake of strife. He knew that this war was of a more hideous intensity, a more awful appetite for human lives. He had three sons, all trained into a tradition of national service. He knew their tempering. The first call would take them out with the same eagerness to die, if need be, for their country that his father had felt when he went to Mexico, and which he himself, of the war-spared generation, would have to work out in a different type of service. Through the three months of 1917 before the United States went to war, he suffered as did the other fathers of the nation; and

in that suffering was born that understanding which he was to put into words and deeds through the long months of the struggle. Even while he conferred with magnates who thought and talked and acted in millions and billions of dollars, his thoughts went to the look of little villages on the prairies, of hamlets on the hills, of commonplace streets in great cities, all holding the homes from whence would come the youth for the long trail. He was to stand with power over the gold of the world; but, like Lincoln, he thought of the wounded at Gettysburg. Through the wearying days of war he was never forgetful of those who paid its toll. It was that humanitarian sympathy, heritage of his own hardships, which was to be his greatest contribution to the nation in the days which followed, for it animated him to those measures which were destined to expedite the end of the conflict and to ameliorate, as much as might be, the lot of those destined to bear its heaviest burdens.

BOOK THREE

1917—1918

CHAPTER 1

War

THE LIBERTY LOANS

WAR, the scourge and the lash of nations, the destroyer of men's bodies and the quickener of men's souls, beat its drums of doom and sounded its bugles of glory to the United States on the night of the sixth of April, 1917, when the House of Representatives passed and the President signed the Senate Resolution declaring the existence of a state of war with Germany.

From the Capitol, glistening in white splendor beneath the deluge of an April rain, with the beacon in its dome signaling to the world the portent of the sessions in its historic halls, ran the waves of message to the land at large. Over the hills of Maryland and Virginia, past Gettysburg, across valleys awakening to the urge of springtime, beyond dark mountains, to north, to south, to east, to west flashed the awaited moment of knowledge that the American people had entered the greatest of all wars. As mankind has and will, men met the moment, each with his own reaction to its portent.

To the great majority of the American people the declaration came with the fortification of inevitability. With Germany's proclamation of January 31st, closing the seas to neutral vessels, the general mind of the United States had realized that national self-respect, demanding defense of rights upon which the nation had always insisted, made the war impossible of further postponement. In his pronouncement to Congress on April 2nd, when he had declared, "We

will not choose the path of submission and suffer the sacred rights of our nation and our people to be ignored and violated," the President had spoken for the mass of his countrymen to whom, as he insisted, "the right is more precious than peace."

It is not beyond the fact to say that McAdoo, as Secretary of the Treasury, helped tremendously to translate the war to the intelligence and emotion of the American people. The Liberty Loan tours, bringing him into direct contact with hundreds of thousands of men and women, laid the main tracks upon which ran the gospel train of his patriotism. To hundreds of little communities on horizon-bounded prairies, in shadowed mountain passes, on desolate seacoasts the tall, thin, hollow-cheeked, blazing-eyed man on the rear platform of a railway train symbolized the Government of the United States. In the gray of dawn, in the blaze of noontide, in the flare of torchlight he stood before them, exhorting, explaining, pleading, leading, flinging out sparks of that fire which lighted his own altar. Without the classic magnificence of Wilson or the romantic effulgence of Bryan, his oratory had a persuasiveness and a power which brought him vitally close to the average man.

He had, too, more than adequate reason for consciousness of kinship with the crowd. Not only did his family background root him deep in the national soil, but his immediate family gave hostage to the conflict overseas. His three sons, Francis Huger, William Gibbs, Junior, and Robert, had joined the Navy upon the country's entrance into war. "I would not confess that I had three sons," their father declared with Spartan self-abnegation, "if they did not have the spirit of America in them"; and it was in speak-

ing of them that he made the demand which was to become the slogan of later loans, "Shall we be more tender of our dollars than of the lives of our sons?" His fundamental sympathy with the mass of humanity overflowed from deeds into words in those troubled times. In return for the message which he brought them, a message less of war than of faith in those to whom it had come, the people whom he met made McAdoo their courier. Through him they poured into Washington their hopes, their fears, their aspirations, their cries for justice, their ideas and ideals. Throughout the war the Liberty Loans not only bore outward the message of national need, but also became the "trouble operator" of the national machinery, receiving, correlating, and starting toward betterment most of the shocks, complaints and abuses which constituted the public reaction toward the cataclysm. It was McAdoo who had to step into the breach on countless occasions. He might have felt at times that he was running three rings, walking a tight-rope, and juggling balls, but his patience seldom wavered, for from the beginning he regarded his war work as a soldier's opportunity. "I hate to think," he said in the first month of the struggle, "that I am part of the old manhood of America because they will not have me in the Army. I would rather be in the Army or Navy, where I could help to strike a physical blow for this noble cause than be talking bond issues; but we can not all serve in the field. We must serve where we are called, and that is the essence of democracy."

This intense nationalism, a natural outgrowth of his blood and his training, visioned the solidification of American sentiment through a popular creditorship of war loans. He believed, as Chase did, in the patri-

otism of the public, and he dared, as Chase did not, to put his faith to the test. He saw, too, the possibility after the war of a concentrated ownership of the public debt by a small group of men who might use it to hamper the freedom of Governmental action, and he set out to prevent such concentration by the floating of the Liberty Loans. From the outset he had to fight opposition in Congress. It took fifteen days—from the ninth of April, when he made announcement of his method, to the twenty-fourth, when Congress voted him the right to pursue it—to convince some of the Senators and Representatives that the plan was neither "impossible" nor "unseemly." And, if the years following the war saw the ownership of Government bonds pass out of the hands of many of the original investors, the seed of the Secretary's hope of public participation in Government finance had grown into a sturdy tree of wide-spreading branches.

His orderliness of mind, one of the most important factors in his ability to do many things at one time, and his refusal to be stampeded by the situation, critical though it was, evidenced themselves in a letter which he wrote on April 14th, to Cleveland H. Dodge of New York, answering a query concerning pending revenue measures.

"It must not be inferred," he wrote, supplementing his public statement of April 9th, "that I have decided to offer the entire $5,000,000,000 of bonds immediately. My mind is open on this subject, and it is my intention to consult freely the best banking and investment opinion of the country with a view to determining what is the wise thing to do in the circumstances. . . . You may be sure that I have in mind such arrangements for the handling of the issue and the proceeds thereof

as will cause the least possible disturbance to business. My chief effort, in fact the whole of my time, has been directed lately upon securing from Congress the necessary authority to act at all. Once that is granted the details can be worked out deliberately, and, I hope, intelligently.

"As to taxation," he continued, "my feeling has been that fifty per cent. of the cost of the war should be financed by it. I am sorry I have not the time to go into the economics of the subject, as the limits of a letter are too contracted for that purpose. But I know it to be a fact that one of the most fatal mistakes that Governments have made in all countries has been the failure to impose fearlessly and promptly upon the existing generation a fair burden of the cost of war. We have not in mind any unfair treatment of any interests, in fact, what we shall strive for is an equitable division of taxes. I favor a reduction of the income tax exemption, from $3,000 to $1,500 for single persons, and to $2,000 or $2,500 for married persons; and I also favor such other provisions as will distribute a fair share upon all the people of the country. I do not believe that it will be necessary to tax incomes up to sixty per cent. although I believe that the Congress will impose a large surtax upon incomes in excess of one or two million dollars, with a corresponding increase all along the line. As you doubtless know, neither the President nor I control revenue measures, and our views are certainly not always adopted by the Congress, so that what I am saying to you must be treated as merely my personal view and not as a reflection of the probable action of the Congress.

"Certainly taxation should not be so inequitable as to paralyze business or to injure business, and every

effort will be made to avoid injustice to any interest. It is a fact, however, that if the Government can not sell its bonds upon reasonable terms, then there is no other recourse than taxation. My own opinion is that there will be no difficulty about selling the Government bonds upon reasonable terms, or about the enactment of a revenue measure which will bear equitably in all directions."

One decision made by McAdoo in the projection of the First Liberty Loan saved to the American people more than $4,000,000,000. The average rate of interest on the war indebtedness of the United States has been about 4.3 per cent, a rate which with an indebtedness of $21,000,000,000 has resulted in the saving which the Secretary effected over the almost united protests of the greatest bankers in the country. It was the belief of the bankers that a high interest rate would be necessary to raise the huge sum required, and the rates suggested ran from 4 per cent. to 5½ per cent. for the first loan. McAdoo, however, insisted on a rate of 3½ per cent. for the first issue, stating to the Congress that "the higher the rate on Government bonds, the greater the cost to the American people of carrying on the war, and the greater will be the depression in all other forms of investment securities." Again, in connection with the Third Liberty Loan, he fought the general banking opinion that the rate should be 4½ per cent., and secured the rate of 4¼ per cent. As a result of his firm stand, it is evident that even a conservative estimate of the saving would place the annual benefit to the Government at from $105,000,000 to $210,000,000. With the life of the bonds fixed at twenty years the total saving would be between $2,100,000,000 and $4,200,000,000.

The result of the four Liberty Loans captained by McAdoo testified to both the patriotism and the resources of the nation. The total subscription to the first loan was $3,035,226,850, an oversubscription of $1,035,226,850, nearly 52 per cent. more than the amount offered. More than 4,000,000 men and women subscribed for the bonds, nearly 99 per cent. of them in amounts ranging from $50 to $10,000. The second loan brought in a subscription of $4,617,532,300, an oversubscription of approximately 54 per cent. of the amount offered. Nearly 9,400,000 men and women subscribed. The third loan caused more than 18,300,000 to subscribe $4,176,516,850; and in the Fourth Liberty Loan more than 21,000,000 people subscribed $6,989,047,000. In addition to the loans more than $800,000,000 in war savings certificates were subscribed in the same period. It was, all told, the most tremendous response which the people of any nation ever made to a war.

For the old method of selling Government bonds to the public through brokers the Secretary substituted the machinery of the Federal Reserve Banks. Not only had the system withstood the shock of the country's going into war, but it had also begun immediately to serve as a fiscal agent of the Treasury, as permitted by the law which had created it. The banks had, with the first summons, taken over, at McAdoo's direction, the placing of issues of short-time Treasury certificates and the redeeming of them at maturity. The first issue of $50,000,000, in anticipation of income-tax receipts accruing June 30th, was subscribed by the Federal Reserve Banks themselves, and was followed on April 25th by an offering of $250,000,000, which was distributed by the banks among the member and

non-member banks of the various districts. Through 1917 these issues were repeated on eleven subsequent occasions, four of them in anticipation of the First Liberty Loan, six in anticipation of the second, and a later issue of $700,000,000 in anticipation of the taxes collectible in June, 1918. By the end of 1918 the Federal Reserve Banks had handled for that year $10,660,743,000 of Treasury certificates of indebtedness, bringing the total of their handlings through McAdoo's war period in office to $14,530,708,000 of certificates. In addition to this they were the agencies of subscription and collection for $16,926,602,400 of Liberty bonds of the first, second, third and fourth issues.

The use of the Federal Reserve System as a fiscal agent in the certificate and bond issues saved to the Government millions of dollars which would have been paid as commission to banking houses under the Civil War system. In addition, the business of the banks brought back large sums of money to the Treasury, as the law provided that after all dividend claims and expenses of the regional banks had been paid and proper payment made to the surplus fund, all net earnings should be paid to the United States as a franchise tax. By the end of 1918 the Federal Reserve Bank of New York had accumulated the maximum surplus permitted by law, and the twelve banks set aside as a reserve for franchise tax $26,728,440. All the banks but two had purchased property for new quarters, the purchase price running to other millions of dollars so that there could be no question of the success of the system, even under high pressure.

The utilization of the system as the Governmental agent for the sale of Liberty bonds brought upon Mc-

Adoo some bitter opposition from old-line politicians of his own party who contended that the banks were developing through it a political machine which would in time be turned against the Democratic party. McAdoo, contending that the use of the banks was the only efficient method, refused to admit the contention, declaring that the result of winning the war was the only one for consideration and discounting the minor forebodings of the prophets of evil.

For the further propagation of public interest in the labor of financing the war he established as a supplement to the Federal Reserve Liberty Loan organization the National Woman's Liberty Loan Committee, which operated directly from the Treasury through women state chairmen to the women of the United States, and which directed the sales of bonds to the officers of the Federal Reserve System. The National Committee, the only woman's organization in the Government with executive authority, testified to McAdoo's belief that the women of the nation would not only constitute a powerful moral force in war finance but would also perform actual labor in the raising of the money. His faith was justified by the fact that in the second loan 60,000 women sold $1,000,000,000 of the issue, in the third loan 500,000 sold half as much again, and in the fourth loan nearly a million women sold over forty per cent. of the total subscribed. No point of war work gave so many women opportunity of service, and the progress of women in it was the most revolutionary advance of the woman movement in the United States in that it gave the women involved opportunity to work not merely as women but as citizens.

REVENUE MEASURES

Back of the question of raising immediate money for the financing of the war loomed the problem of increasing the revenues of the Government by taxation. It was at this point that McAdoo had to deal with Congress since, by the Constitution, it was the Secretary of the Treasury who had direct access to both Houses on measures of revenue. The cloture system of the House of Representatives narrowed down his association in that body to conferences with the chairman of the important committees; but the Senate, holding its right of forensic debate, thrust upon him the combat at which he was at his best.

On the Republican side Lodge, the Pym of the body, cold, narrow, partisan, but with a white fire of nationalism lighting his austere scholarship; Smoot, who had prayed while others talked on the war resolution and who saw his political career as a service of God, even to regarding his Democratic adversaries as whetstones of salvation; Borah, rising above party by sheer force of intellect and height of ideals, and holding, as did no other man, the Senate to the tradition of its creation; Penrose, machine politician; LaFollette, suffering from public reaction against his anti-war vote, but holding the potentialities of leadership for the agricultural interests of the nation; these and a score of minor luminaries constituted the force which the Secretary had to convince or to outwit, according to their temperaments and intentions, that he might win the vote necessary to what he conceived to be the best way of war finance. On the Democratic side Walsh of Montana, one of the Senate's greatest lawyers; John Sharp Williams, bearing the standards of the Old

South, and Carter Glass, bearing those of the New; Ollie James, a pile-driver of power; Hollis, New England as Lodge, but softened by wider outlook and by social suavity; Kitchin of the House, a giant in debate; these were some of the party bulwarks, which the administration had for support. It is noteworthy of McAdoo that he brought out of his time in office no personal antagonisms against any one of the great opponents whom he met in that time. It was, in fact, McAdoo who twice urged upon the President the appointment of Elihu Root, whom he regarded as the possessor of the greatest mind in the Republican party, proposing him first on April 17, 1917, as the head of the Russian Commission, and again on November 23, 1918, as a member of the peace commission. Unquestionably it was this unusual quality of political generosity which enabled the Secretary to deal with the legislative aspect of the revenue problems.

As early as the fifth of February, 1917, the Secretary had urged upon the President the desirability of promoting passage of the pending revenue measure. "We must put through this legislation in any case," he had written. "If the worst happens with Germany, additional legislation will be needed. Meanwhile, if we delay action on the present bill, with the life of Congress rapidly expiring, we may get no legislation."

The wisdom of the advice was shown by the diversity of opinions presented in Congress on the revenue measures. "The full committee on Ways and Means of the House, including Republicans and Democrats, has worked single-mindedly and diligently to produce a satisfactory measure," McAdoo told the bankers of the Seventh Federal Reserve District at a meeting in Chicago in May, 1917, "but, as in all revenue bills,

there are differences of opinion which can only be reconciled after the measure has gone through the crucible of debate in both Houses and been agreed upon in final conference."

In June, from a Liberty Loan tour, he wrote to Senator Stone, stating his certainty that not less than $4,800,000,000 should be raised for the fiscal year of 1918 by new taxation. "I do not undertake to say what is the best distribution to make of these taxes, although I have definite ideas about some features of the new bill," he wrote. "I recognize that it is the function and duty of Congress to determine where the taxes shall be laid, but as to the amount required to finance the Government in this time of tremendous crisis, I earnestly hope that the views of the Secretary of the Treasury may have some weight."

Assuming that "there is not an unlimited market for the sale of bonds in this country," he insisted that there must be no confusion of issues by increase of bond issues. "The less taxation you impose and the larger the amount of bonds issued, the more the credit of the Government is weakened, and the higher the rates of interest the Government must pay on its borrowings. The inflation from unlimited bond issues lifts the general level of prices, with hurtful effects upon the entire population of the country which must sustain the added burdens of increased costs of living, and reacts hurtfully upon the Government itself because the higher the price level the less the purchasing power of the proceeds derived from the sale of the Government's own securities and the greater the amount of money it must ultimately raise by taxation and bond issues to meet the expenses of the war."

The revenue legislation of the following year, 1918,

presented to McAdoo even greater difficulties. Not only were the estimates of the various departments appalling, even to him, in their constant growth, but Congress evinced an intention of putting off consideration of any such measures until after the November elections. McAdoo, just returned from a body-wearing campaign for the third loan, saddened by tidings from France, fell seriously ill. Forbidden by his physician to see any one, he launched into letter-writing when he learned of the temper of the Congress. On May 8, 1918, he wrote to Senator Simmons, who had been quoted to the effect that there would be no new revenue legislation at that session, declaring that such legislation was absolutely necessary. To the President he wrote:

"May 8, 1918.

"My dear Mr. President:

"I send you herewith copy of a letter I have just sent to Senator Simmons. Nothing is more imperative than new revenue legislation at this session of the Congress. I have been unable to take up the matter before. The War and Navy Departments and the Shipping Board have been changing their estimates so often that I have been unable to keep up with them, and I also felt that it was necessary to get the Liberty Loan out of the way before considering the question of new taxation. As I understand it, Congress is anxious to avoid new revenue legislation at this time, but it is unescapable. Unless this matter is dealt with now firmly and satisfactorily, we shall invite disaster in 1919. I think it will be necessary for you, at the proper time, to deliver a special message to the Congress on the question of new revenue legislation.

"The way in which the estimates are climbing is

appalling, but we must find a way, if possible, to meet the situation.

"I am feeling better to-day and hope to get out Friday.

"Affectionately yours,
(Signed) "W. G. McADOO.

"The President,
"The White House."

Two weeks later, after voluminous correspondence with Treasury officers and the heads of other departments, he sent to the President this letter which was both summary and forecast of American financial operations for the war:

"May 23, 1918.

"Dear Mr. President:

"It is with the greatest reluctance that I have been forced to the conclusion that new revenue legislation must be enacted at the present session of Congress if the needs of the Government for the fiscal year 1919 are to be met.

"At the present rate of expenditure the Treasury will actually have to disburse during the fiscal year ending June 30, 1919, approximately $24,000,000,000. This estimate is not based merely upon appropriations, nor merely upon estimates made by other departments as to their probable expenditures, although they have been obtained and considered; they are based upon the actual experience of the Treasury during the past year, which has shown that actual expenditures have increased at the average rate of $100,000,000 per month since March, 1917. You will observe from the enclosed statement (Exhibit A) that in March, 1917, the expenditures were in round figures $100,000,000.

In May, 1918 (partly estimated) they will be $1,585,-500,000. If there should be no further increase during the coming fiscal year, the cash expenditures upon the May basis would be more than $18,000,000,000. If, as seems inevitable, the increase in expenditures should increase at the rate of $100,000,000 per month for the next six months, or until December, 1918, and if thereafter the monthly expenditures should remain stationary until the thirtieth of June, 1919, the Treasury would have to finance expenditures aggregating $24,-000,000,000 during the fiscal year ending June 30, 1919.

"In the fiscal year ending June 30, 1918, our cash disbursements will amount to between $12,500,000,000 and $13,000,000,000. Of this amount, roughly one-third will have been raised by taxes and two-thirds by loans, all of which will be represented by long-time obligations, that is, bonds of the First, Second and Third Liberty Loans and War Savings Certificates. We shall thus have completed fifteen months of the war with a financial record unequaled, I believe, by that of any other nation.

"We can not wisely contemplate nearly doubling our cash disbursements in the fiscal year 1918 without providing additional revenue. We can not afford to rely upon $4,000,000,000 only from taxation because we shall then have to rely on raising $20,000,000,000 by loans. This would be a surrender to the policy of high interest rates and inflation, with all the evil consequences which would flow inevitably therefrom, and which would, I firmly believe, bring ultimate destruction upon the country. We can not afford to base our future financing upon the quicksands of inflation or unhealthy credit expansion. If we are to preserve the financial strength of the nation, we must do the sound

and safe things, no matter whether they hurt our pockets or involve sacrifices—sacrifices of a relatively insignificant sort as compared with the sacrifices our soldiers and sailors are making to save the life of the nation. The sound thing to do is unquestionably to increase taxation and the increases should be determined upon promptly and made effective at the earliest possible moment.

"I doubt seriously if the Government can be financed with only $4,000,000,000 derived from taxation because sufficient economies will not be enforced upon the people of America with so small a tax bill as this, and without such economies I see no way in which the great financial operations of the Government can be safely conducted.

"On the basis of the present revenue laws, we should have to raise in the fiscal year 1919 $20,000,000,000 by the sale of Liberty Bonds or by loans of one sort or another. Personally, I do not believe that it can be done. I believe that if we are to preserve the soundness and stability of our financial structure, we must raise not less than one-third of our expenditures by taxation. Not merely should $8,000,000,000 be assessed in taxes, but those taxes should be made available in cash to the Treasury during the fiscal year 1919, so that the amount to be secured by loans during that fiscal year shall not be more than $16,000,000,000.

"The existing war revenue act was approved by you October 3, 1917, yet there has been a strong demand among taxpayers for legislation authorizing the deferred payment of these taxes. This demand is not without basis in justice. The income and excess profits taxes imposed by that law covered the entire calendar year 1917, so that the business of the country had

been conducted for nine months of the year without certain knowledge as to what the basis of taxation was to be, and all individuals subject to the income tax had expended their income during the nine months without knowledge of the Government's tax requirements. This was most unfair to the business of the country and to the taxpayers generally. They ought to know in advance of each calendar year the basis upon which individual expenditures may be made. This is particularly true of salaried men who have fixed incomes and, therefore, are put at a great disadvantage when they are taxed, retroactively and after they have expended their incomes. Even if a tax measure is passed at this session of Congress, the business of the country will have been conducted upon the old basis for more than one-half of the calendar year 1918, to which the new tax measure must be applicable. Notwithstanding the fact that the present taxpayers have had less than nine months since the enactment of the law of October 3, 1917, to prepare for the payment of their taxes, I have been obliged to refuse to recommend to Congress legislation permitting deferred payment of taxes, because the necessities of the Treasury are so imperative as to absolutely forbid it.

"If the consideration of new revenue legislation by Congress were deferred until the short session in December, or even until a special session called, as has been proposed, as early as possible after election day in November, no one thinks that legislation could be had before February or March. If that happened the payment of income and excess profits taxes for the fiscal year 1919 would have to be postponed until the fiscal year 1920. This would mean that the whole amount of $24,000,000,000 less say $1,500,000,000 mis-

cellaneous revenue, would have to be raised by loans during the fiscal year 1919; a sum equal to about the amount of the First Liberty Loan ($2,000,000,000) would have to be borrowed each month.

"It has been said that income and excess profits taxes are not due until June and that to defer legislation until February or March to increase these taxes would not increase the amount of cash available to the Treasury. But we have borrowed $1,500,000,000 on Treasury certificates of indebtedness issued in anticipation of the payment of income and excess profits taxes and sold to taxpayers during the current fiscal year, nearly half of it before January 1, 1918. The prompt enactment of a law providing for heavily increased taxes will not only serve to give notice to the community to prepare for these taxes, but will place the Treasury in funds through the sale of Treasury Certificates of Indebtedness maturing on tax day in June, 1919. I am afraid we could sell only a negligible amount of such certificates if the tax legislation were left undisposed of until February or March. A propaganda for the deferred payment of taxes would receive an inevitable further impetus from that fact and would be irresistible.

"It would be impossible to administer a new tax law covering the fiscal year 1919 if it were enacted as late as February or March, 1919. The new forms for tax returns and the new regulations under the new law involve a tremendous amount of work requiring ample time, and the distribution of the forms for returns and the making of the returns themselves take months of time and effort. Therefore, no revenue would be available from taxes during the fiscal year 1919, and every dollar of the $24,000,000,000 of ex-

penditures would have to be raised by temporary loans and Liberty Loans. We could not even sell Certificates of Indebtedness in anticipation of tax payments because there would be no tax payments available in the fiscal year 1919. It is simply impossible to finance the Government for the fiscal year 1919 upon the basis of borrowed money only.

"At the risk of repetition, I desire to say that the community is entitled to be informed, and informed promptly, if increased taxes are to be levied. To raise $8,000,000,000 by taxation is no light matter. To levy taxes such as these on incomes and profits, after those incomes and profits have been expended, is unjust, unsafe and unsound. The tax due in June, 1919, will be based upon income and profits accruing during the calendar year ending December 31, 1918. If new taxes are not provided until two or three months after that date, the people will be misled and the whole situation gravely imperiled. One of the most important objects of heavy taxes in war times is to curtail wasteful and unnecessary expenditures. To allow the people to continue to make wasteful and unnecessary expenditures and then, after the incomes and profits upon which the tax is based have been invested or dissipated, to tax them, is wrong.

"I have indicated the reasons why I think the immediate enactment of a law to produce additional revenue is necessary. There are also certain general considerations bearing upon the problem of taxation and the character of legislation which should be enacted to which I wish to draw your attention.

"The existing excess profits tax does not always reach *war* profits. The rates of taxation are graduated and the maximum rate is sixty per cent. In Great

Britain there is a flat rate of eighty per cent. on all *war* profits. The War Department and other disbursing departments of the Government, under great pressure as they are to get necessary war materials and supplies with the utmost expedition, can not in the nature of things fix their prices nor guard their contracts in such a way as to avoid the possibility of profiteering. The one sure way is to tax away the profits when they have been realized. I do not say this in a spirit of criticism toward the corporations or business men of the country who have for the most part loyally supported the Government. In entering into war contracts they take grave risks. They are called upon to make vast expenditures of capital for purposes which may prove unproductive after the war. They are not to be blamed in these circumstances for asking for prices and terms which cover these risks. On the other hand, when the risk has been liquidated by proper allowances, and the contract has proved profitable, the Government should take the great bulk of the profits back in taxes. Under the existing law that does not happen because the rates are not high enough and could not safely be made high enough since the test now is not how much of the profits are due to the war, but what relation the profits bear to the capital invested. A company with a swollen capital and huge war profits escapes. The laboring men of the country, the great mass of the people in the country, will not rest content while corporations engaged in war industries pay huge dividends from Government war contracts or Government price fixing. The people are impatient, and rightly impatient, of war profiteering. They are impatient of the financial slacker, whether he be rich or poor.

"This brings me to another consideration of great moment in the Government's financial plans. I hope and expect to prevent further increase in the interest rate on Government bonds. The 17,000,000 people who have bought Liberty Bonds are impatient of those who have not. I have had urged upon me varying plans for forcing the people to buy Liberty Bonds. The man of small means who buys a $100 bond wants his neighbor to do so too. There is a popular demand for high taxes upon war profits. There is also a popular demand that all the people, rich and poor, should contribute to financing the war. There should, therefore, be an important increase in the normal income tax rate and a higher tax should be levied upon *un*earned than on *earned* incomes. Income derived from Liberty Bonds should be exempt from this taxation and the millions of holders of bonds would benefit by this exemption. The relation between the income derived from Liberty Bonds and from other securities would be readjusted without an increase in the rate of interest, and this relation would subsequently be restored after the war. It would not tax the holders of Liberty Bonds on their holdings. It would weigh heavily upon the shirkers who have not bought them. It would make the return from Liberty Bonds compare favorably with the return from other securities. It would give the Government's bonds a great advantage over those of corporate borrowers and would very greatly decrease the relative advantage which state and municipal bonds now enjoy through the total exemption which they carry. It would produce a gradual readjustment of the situation in the investment markets instead of an abrupt one, as would be the case if the Government's interest rate were increased. A normal tax falls upon all alike.

Therefore, as I pointed out to Congress last summer, there is not the same objection to the exemption from normal income taxes as there was to the exemption from surtaxes. A great, and, if necessary, repeated increase in the normal income tax is the one sound, sure way of stabilizing the price of the Government's bonds. If we have to increase the interest rate on the Government's bonds, the interest rate so created will continue for thirty years and some of the bonds which we have issued will go to great premiums not long after the war is over. If we make the bonds at the present rate more attractive by increasing the normal tax then the decrease in taxation which will follow the close of the war will automatically adjust the situation. I believe that to stabilize the price of the Government's bonds by first increasing and subsequently reducing the normal income taxes, from which the holders of these bonds are exempt, is sound finance and sound economics.

"There is another feature deserving of your consideration. We are asking the people to finance this war and we are offering them an investment paying four and one-fourth per cent. interest. The people have responded wonderfully to this appeal in the last Liberty Loan campaign—17,000,000 approximately having subscribed. They naturally feel that the rich people of the country, especially those who are making vast profits out of the war, are not doing their part. It is, in fact, true that many rich people are investing in bonds and stocks, especially in war industries or those profiting by the war such as iron and steel companies and coal companies, which pay huge dividends, instead of buying Government bonds paying four and one-fourth per cent. interest. It is a natural feeling among

the masses of the people that taxation upon incomes and upon war profits should be so high as to bring the return from corporate investments of this character more nearly on a parity with the Government's bonds; that the Government should not be forced to compete for credit with war industries which are profiting abnormally and which, unless restrained by the exercise of sound and just taxation, will constantly add to the difficulties of the people of the United States in their effort to supply the Government at reasonable interest rates with the credit it needs to fight successfully this war for liberty.

"To summarize the main features of the tax legislation which I recommend:

"(1) Such legislation should be calculated to provide in cash during the fiscal year ending June 30, 1919, not less than one-third of the cash expenditures to be made during that year. According to my estimates, $8,000,000,000 should be raised in taxes payable in cash into the Treasury during that year.

"(2) A real war profits tax at a high rate should be levied upon all war profits. This tax should be super-imposed upon the existing excess profits tax in such a way that the taxpayer would pay whichever tax were the greater, and the existing excess profits tax should be amended in certain important particulars so as to remove inequalities.

"(3) There should be an important increase in the amount of normal income tax upon unearned incomes. Under existing law earned incomes above certain exemptions are taxed 4 per cent. as an income tax and 8 per cent. under the name of an excess profits tax, making a total of 12 per cent., while unearned incomes, derived from securities, etc., are taxed only 4 per cent.

The 8 per cent. tax should be recognized as an income tax and the rate of 12 per cent. retained in respect to earned incomes, while a higher rate than 12 per cent. should be imposed on unearned incomes.

"(4) A heavy tax should be imposed upon all luxuries.

"The only reasons which have been urged upon me against revenue legislation at this time are political. Many have expressed the fear that it would cause the loss of the next House of Representatives to the Democrats. I do not know whether this be true or not. It seems to me that the fear is ill-founded, because I am sure that the people of the United States will have much more respect for and confidence in those who are willing to tell them before they are asked to vote just what their position is about taxation upon profiteering and upon incomes than in those who dodge the issue. But whether such legislation does or does not affect the political complexion of the next Congress, how can we allow any political consideration to stand in the way of our doing the things which are manifestly demanded to save the life of our Nation? I believe that these political fears are unjustified and I further believe that if you should present this important matter to the Congress in a strong message, it would result in prompt and adequate legislation to meet what is without exaggeration a genuine war emergency.

"Cordially yours,

(Signed) "W. G. McADOO.

"The President,
"The White House."

Even McAdoo's conference with Congressman Fordney, who suggested that it might be possible to an-

nounce definite action on revenue measures although the measures themselves would not be taken up until an extra session immediately following the November elections, and the President's message to the Congress failed to speed legislation, and in July, 1918, McAdoo sent to the President a telegram urging the needs of the nation for speedy action. "I know that all you can do is to exert your influence," he wired, "but I consider it vital that the new revenue bill shall become a law not later than the end of September."

In August he appeared before the Ways and Means Committee of the House of Representatives to urge the passage of the revenue bill; but it continued to drag, despite all of the President's and his own solicitations, arguments and pleas to members of their own party in power in Congress. In September he wrote to Representative Kitchin a long letter, again insisting upon action for the sake of the country; and on October 7th, when the American troops were in the thick of action and the nation hung upon the news of every day in France, he wrote to Senator Simmons, "I am writing in deep solicitude to ask your cooperation and that of the Committee of Finance in averting a grave peril to the successful financial conduct of the war. I can not disguise nor refrain from directing your attention to the fact that failure promptly to report and pass the new revenue bill will disorganize and endanger the national finances." He incorporated the quotation from the President's message of May 27th, when he had gone before both Houses to urge the passage of the bill, "I can not assure the country of a successful administration of the Treasury in 1918 if the question of further taxation is to be left undecided until 1919." The end of the war came, however,

without the passage of the bill, and three days afterward McAdoo sent to Simmons the revised estimate for national taxation, reducing it to meet the changed situation.

No other aspect of his Secretaryship had the elements of difficulty which the situations with Congress on the revenue measures engendered. Better than any other officer of the Government he knew the need of enactment of adequate legislation for taxation at the immediate time of the war. His rigid belief in the strengthening of the back to the burden held him in the policy of keeping the raising of war revenue to the time which best understood its vital necessity. Under the burdens of greater sorrows than monetary privation people knew the need of and the urge toward sacrifice. In essence McAdoo's one policy toward war finance was "Do it now." From April, 1917, to November, 1918, he fought for the adoption of this policy by the Congress. "In our Civil War," he wrote to Senator Stone, "the Federal Government made the fatal error of imposing too little taxation at the outset, and it paid dearly for the mistake. Not only did it seriously impair the Government's credit, but it increased its difficulties in every direction, causing without doubt wholly unnecessary expenditures of life and treasure to bring the war to a conclusion. We must act vigorously and soundly in the situation to bring this colossal conflict to a close with the minimum expenditure of life and treasure."

Even without the cooperation which he sought he was able to keep the ship of finance in motion, but there is no question that the success of the struggle to convince the legislative bodies of the ultimate wisdom of the course he had charted in revenue-raising

would have solved some of the problems which arose out of their delay. From the viewpoint of the annalist, however, the historical value of McAdoo's Secretaryship seems to lie less in the amount of money which he raised for the conduct of the war than in the fact that he made for the time of war the people of the United States the creditors of its Government. Because the man who puts into effect a great social truth of democracy is greater than the one who accomplishes a financial miracle, no matter how important, he made his war work more than the transient opportunism of war finance.

On the very day when he resigned from the Secretaryship he sent to the Chairman of the Senate Committee on Finance a letter, advising revision of estimates and setting forth the general situation. "It is of the utmost importance that foreign loans be held down to a minimum, and, as soon as may be, discontinued," he declared. "Our tax measures should be so devised as to encourage and stimulate business and industry rather than to burden and depress them." He recommended that the pending Revenue Bill be revised with a view to yielding less money, that income and excess profits taxes be made payable in four equal quarterly instalments, beginning March fifteenth of each year, and that to compensate for any reduction of revenue beyond the desired amounts above indicated, there should be an increase in the corporation and individual tax levies. "Prosperity can not be maintained if business is kept in uncertainty as to taxation," he urged in battling retroactive taxation.

In this last legislative communication of his time in office he steered true to his main course. In the Liberty Loans, in the establishment of the War Risk

Insurance Bureau for men in the service, in the operation of the Railroad Administration he promulgated by action certain broad principles of real democracy of which the effect is yet to be measured. By making millions of American citizens owners, temporarily at least, of Government bonds, he was writing another chapter in the history of public consciousness of Republican institutions; and, if Alexander Hamilton turned in his grave at the perversion by his Treasury of the principles of aristocracy which he had implanted within it, James Madison must have indulged in the nearest ghostly sound to a chuckle at the thought of the institution's apostleship of the principles it had been designed to repress.

CHAPTER II

Loans to the Allies

THERE is a picture, firmly implanted in the American mind, of Franklin at the courts of Europe, meeting with straightforward and democratic simplicity the intrigues of imperial diplomacy. It is a visualization which has always pleased the national consciousness, depicting as it does the sturdiness of the national standard. It may, however, be supplemented, when partisan judgment is merged into historical perspective, by the picture of McAdoo, as Secretary of the Treasury, conferring with the agents and ambassadors of the foreign powers engaged with the United States in the war against Germany; for in the history of the nation no man except the President ever exercised so tremendous a power over the nations of Europe or used it with more statesmanlike discretion for his own country than did he. In a period of a little more than eighteen months, from April 24, 1917, to November 15, 1918, he authorized credits in favor of the Governments of Belgium, Cuba, France, Great Britain, Greece, Italy, Roumania, Russia, Liberia and Serbia amounting to more than eight billions of dollars; and he met week after week, sometimes day after day, the representatives of these Governments, intent on winning for their own countries all possible advantage. The greatest diplomats of Europe were almost literally camped on his door-step. They were the petitioners, and he the giver, but it was his brain in combat with theirs that they might have justice, and no more than justice.

It was essential to American success that the money

be loaned in such vast sums. The United States was at war with Germany, but for many months no American troops could reach the firing lines. Through those months the Allies were paying in lives as well as in money. In fact, the greater part of the billions of dollars loaned by the United States to its co-belligerents was used in that time after the country had entered the war, but before it was able to take its full share in the fighting. The loans were, to a remarkable degree, saving elements for American lives, but McAdoo had to steer between the Scylla of sentimentalism and the Charbydis of overcaution. He had to be shrewd as well as sympathetic. No man in the Cabinet was taken to higher mountains. Even after the ending of the war and his resignation from the Treasury three foreign Governments offered to him decorations—and what decorations!—in appreciation for his labors in the war loans. On the ground that these labors had been performed during the time of his Secretaryship he refused the honor, believing that the spirit, if not the letter of the constitutional prohibition extended even beyond the actual time of officeholding. His entire personal attitude toward the stream of plenipotentiaries was that of grave courtesy with a "Welcome" on the doormat, and a "No entangling alliances" motto on the wall.

The general theory of inter-Allied finance when the United States entered the war held that the people of each belligerent country could and should respond, in taxes and subscriptions for domestic loans, to the financial demands of its Government for its own or inter-Allied account. Each one of the Allies had been responsible for the financing of inter-Allied purchases within its own borders. This rule was extended to the

United States when it went into the war, and the American Government therefore financed the requirements of the co-belligerents within the borders. Great Britain and the United States shared in the neutral world in accordance with a formula agreed upon between them the expenditures there. It was because of the enormous purchases of war material in the United States and neutral countries that the loans had to be made in tremendous amount. The loans to co-belligerents made by McAdoo, under the power vested in him by Congress, bought American goods for foreign use, and were secured by collateral still held by the Treasury of the United States.

The insistence by the Treasury that the Federal Reserve Banks not violate neutrality by direct loans to the Allies from 1914 to 1917 had restricted American financing of inter-Allied needs to private bankers. By March, 1917, according to R. H. Brand in his presentation of the British "War and National Finance," the British Government "with commitments in the United States running into several hundreds of millions, was at the end of its tether." In a confidential cablegram to the President on March 5th Walter Hines Page, American Ambassador to Great Britain, declared that the financial inquiries made in London revealed "an international condition most alarming to the American financial and industrial outlook. England is obliged to finance her Allies as well as to meet her own war expenses. She has as yet been able to do these tasks out of her own resources. But in addition to these tasks she can not continue her present large purchases in the United States without shipments of gold to pay for them, and she can not maintain large shipments of gold for two reasons: first, both England

and France must retain most of their gold to keep their paper money at par; and second, the submarine has made the shipping of gold too hazardous, even if they had it to ship."

Even in face of the danger of panic which might come even to the United States if the failure of France and England to meet their obligations caused a collapse of European finance and world trade the United States could take no measure until the Congress authorized the Secretary of the Treasury on April 24th to make the loans to co-belligerents. In a letter to a Pennsylvania banker who inquired concerning the use of the war loans under the Bond Bill, McAdoo clarified the situation in a paragraph:

"This Government can not make war in the present circumstances upon Germany except in conjunction with the Allied Governments now in the field in Europe, and it can not carry on the war without the assistance and cooperation of the Allied Governments. For the time being, at least, whatever fighting we may do must be through the armies of the Allied Governments already in the field, and this to their armies, extended through credit and supplies furnished by the United States Government, is the most effective way in which we can do our part immediately in carrying on the war against the common enemy. It is certainly the view of the Congress of the United States that it is to the interest of the United States that funds should be supplied to the Allied Governments on the same basis that the United States is able to borrow for itself."

The Secretary of the Treasury had already communicated with the American Ambassadors to the other nations at war with Germany, had conferred with the special agents who had come to Washington, and

had summarized the situation in terms of its financial necessities. Pressure to make a direct Governmental gift of a billion dollars to France came heavily upon him, but he held to a steady course which he outlined to President Wilson in a letter of April 30th:

"April 30, 1917.

"Dear Mr. President:

"The so-called 'Bond Bill' approved April 24, 1917, which authorizes the Secretary of the Treasury, with the approval of the President, to purchase, on behalf of the United States, the obligations of foreign Governments engaged in war with the enemies of the United States, provides, among other things, that the Secretary of the Treasury, with the like approval of the President, may, 'enter into such arrangements as may be necessary or desirable for establishing such credits,' etc. I inserted this language for the specific purpose of enabling this Government to impose such terms and conditions upon the borrowing powers as would give us potential voice in the use of such credits.

"So long as we are lending money to the Allied Governments, it is to their and our interest to see that it is exerted with the utmost effect upon the fighting fronts in Europe.

"The Allied Governments have suffered fearfully from high interest rates, restricted loans, excessive prices for supplies and slow deliveries. Obstacles to the prompt transport of essential supplies are growing daily more difficult. There has been a lack of adequate coordination and cooperation on the part of the Allied Governments. Great Britain, France, Italy and Russia have each been buying supplies on a tremendous

scale in our markets, without an effectively organized central agency or clearing house through which such purchases should have proceeded. This has led to a certain amount of inevitable bidding against each other with resulting price increases and confusion, reduction in purchasing power of their money, and delays in delivery of sorely needed supplies.

"Our Government being now at war is also in the market for vast quantities of supplies. It will be a calamity if we should find ourselves in competition with our Allies. Unless we can bring about a more thorough cooperation between them and ourselves, effective conduct of the war will be seriously hampered.

"Four things we must accomplish are:

"1. Find the money for our Allies;

"2. See that this money is wisely expended in the purchase of supplies in this country;

"3. See that these supplies are promptly delivered by our manufacturers and producers; and

"4. Secure their transportation over our own railroads and across the oceans promptly and efficiently.

"With this in view I have suggested to Great Britain, France, Italy and Russia that there be incorporated in the agreements under which loans are made by this Government, a provision for the appointment by the Secretary of the Treasury of a commissioner, or small commission, composed of not more than three men, whose duty it shall be to coordinate all of the principal purchases of those Governments in this country; to see that they get the lowest possible prices and the earliest possible deliveries on orders, and to cooperate with the railroads and the steamship lines in securing the prompt delivery of these supplies to ultimate destinations. This commissioner, or commission, should

cooperate with the proper agencies of our own Government and see that there is no conflict between the purchases for our own and the purchases for foreign account. All of the Governments, especially the British Government, with which I have discussed the matter most fully, have accepted this principle, and it only remains to work out satisfactorily the necessary details. The problem, although large and difficult, can be handled practically and successfully.

"It is, of course, of no value to purchase supplies, however advantageously, in this country unless they can be promptly delivered to our Allies in Europe. This brings us to the shipping problem—an essential part of the plan I have in mind. All of the merchant tonnage of the United States under the control of the Government, or which may be brought under its control, should be administered by the Shipping Board. The German ships in our possession should be delivered to this board. The Austrian vessels, if acquired, should, also, be turned over to the board. The commandeering of our coastwise tonnage or any part of it, and of any other available tonnage, should be committed to the Shipping Board. It should be the common reservoir of all merchant tonnage under the control and direction of the Government. When the Army and the Navy require ships, they should make their requisitions upon the Shipping Board, and when the commission purchasing supplies for our Allies requires ships for the delivery of these supplies, it should draw upon the Shipping Board. It is not always a question of a vessel; it is frequently a question of cargo space, and once the Shipping Board provides the proper organization it will know, or should know, where every available ship can be found and where every avail-

able cargo space is and how it can be utilized to the best advantage. The board could cooperate in the administration of our own shipping with the Governments of Great Britain, France, Italy and Russia, and thereby secure the largest amount of service out of every vessel unit. Unless this is done we can not bring order out of the present confusion, nor can we increase the efficiency of the tonnage under control of the several Governments—a tonnage which is disappearing more rapidly through the U-boat warfare than the shipyards of the world are able to replace.

"So vital is this problem that all of the credit we are extending to the Allied Governments and all of the efforts we are making, will prove worthless unless we can put the necessary ships into commission quickly and can successfully drive them through the war zone.

"Shipping, therefore, is so intimately related to the application of the credits we are giving to the foreign Governments, that unless it can be completely coordinated with the work of the Treasury, I am frank to say that I think advances to the Allies are scarcely worth considering. Nor will it be worth while to organize the proposed commission for coordinating the purchases of foreign Governments in our markets, or to attempt to secure the wise expenditure of the money we lend to the Allied Governments, unless we can deal effectively with the shipping problem.

"I beg to urge, therefore, with all the earnestness I can command, that all matters relating to the merchant shipping shall be placed under the general control of the Shipping Board, and that that board be requested to act in the closest possible cooperation with the Treasury Department and the proposed com-

mission for the coordination and purchase of supplies by foreign Governments.

"Cordially yours,

(Signed) "W. G. McADOO.

"The President,
"The White House."

One of the first difficulties met by McAdoo in the foreign loans arose from the attitude of mind of many of the ambassadors and commissioners upon the obligation of the United States. The passage of the Bond Bill had been a purely voluntary act of the Congress, uninspired by any suggestion or solicitation from any other Government, and intended to express the desire of the American people to give immediate aid in the war which they had entered. It was not intended that the Government of the United States should assume, however, all the financial burdens of the Allied Governments of Europe arising out of the purchase of supplies or other operations of these Governments in the markets of the world. The purpose had been to supplement the resources of these Governments to an extent which would seem wise within the discretion of the Secretary of the Treasury, to be exercised always subject to the approval of the President. McAdoo had insisted in every case that he be supplied with all the necessary facts, the extent of financial commitments of these Governments in the United States, the available gold fund; and a carefully prepared estimate of the requirements of these Governments, month by month, for the succeeding six months. He found in many cases the representatives of the European Governments evasive or indifferent, and he took high

ground in insistence that the negotiations between the Governments should be conducted not upon the plane of ordinary banking houses, seeking to profit themselves, but with the dignity compatible with the cause. On the sixteenth of May out of experience swiftly acquired in the surge of events he again wrote:

"May 16, 1917.

"Dear Mr. President:

"Since writing you on April 30th about the advisability of establishing a central agency to control the purchase of supplies for the Allied Governments as a part of the arrangement for the establishment of credits for them in the United States by our Government, I have gone into the matter in greater detail and have reached the conclusion that coordinating these purchases and our own buying of war material is vital to the success of the plan. I have taken up the matter with the Secretaries of War and the Navy. Mr. Daniels seems to regard the idea favorably; but, while Mr. Baker has not negatived the suggestion, it does not, I think, appeal to him strongly. I have discussed the matter with the representatives of the Allied Governments and they are both willing and anxious that their purchases shall be made through an agency to be designated by us.

"I regret that it is necessary to go into detail but the past and present situation, which I have learned through my conferences with representatives of the foreign Governments and through special inquiries made by me of persons I know to be acquainted with the subject, should, I think, be made clear to you.

"Early in the war, Great Britain, France and Russia purchased in this market independently of each

other through officials of their Governments who were sent here for the purpose or through brokers and commission houses in England, France and Russia, who, in turn, in many instances, filled, or attempted to fill their orders through other brokers and commission houses in this country. It is unnecessary for me to enlarge on the inextricable confusion which resulted from this process.

"In January, 1915, the British Government appointed J. P. Morgan and Company as their Commercial Agents in this country and some three or four months later, the French Government did the same. I understand that while J. P. Morgan and Company acted as purchasing agents for the British and French Governments for some articles and some departments, they did not deal with all materials that were purchased in this country by all departments of the Governments in question. The situation was greatly improved with respect to the purchases controlled by the joint agent but there continued to be conflict, confusion and serious waste in those purchases which continued to be independently made.

"Some time in the year 1915 an arrangement was made by which the British Government undertook to make purchases in the United States of materials required for the Russian Government, this action being taken to avoid competition between the Russian, French and British Governments in the United States, and also in order that the British Government might more effectively control the expenditures of moneys advanced by it to the Russian Government. These arrangements, however, extended only to purchases of materials for Russia which were financed by the British Government, and the Russian Purchasing Com-

mission in the United States continued to deal and purchase independently to such extent as the credits obtainable in this country by the Russian Government permitted, and to just that extent the extravagance and confusion continued.

"Immediately, or shortly after Italy's entrance into the war, a purchasing commission, made up of Italian officers, was established by their Government in this country and this commission proceeded without reference to the British, French and Russian Governments, to compete with the agents of these Governments in the United States in the purchase of materials.

"The British Government, with a view to correcting this latest evil, procured the organization in London of a body which I believe is termed 'International Commission,' composed of representatives of the four Allied Governments. I understand that as to the more important raw materials and a great variety of finished products, which are required by the Allied Governments in this country in amounts forming a considerable proportion of the total productive capacity of the United States, the operations of the International Commission have been found to be effective in all cases where the machinery set up by the commission has been adhered to. There has continued, however, a certain amount of buying confusion due partly to failure on the part of the various departments of the Allied Governments abroad to coordinate, and partly to the eagerness of the representatives of the Allied Governments in this country to obtain the best possible prices and deliveries at the expense of their Allies.

"The Allied Governments next established in London a body known as the 'Inter-Allied Munitions Bureau.' A branch of this bureau was established in

New York and consisted at the outset of representatives of the British and French Governments and of J. P. Morgan and Company. At a later date the membership was enlarged to include representatives of the Russian and Italian Governments. This bureau is charged with the responsibility of obtaining information regarding the condition of the market and the quantities obtainable of such materials as steel, copper, aluminum, spelter, powder, etc. Since definite information regarding the quantities of these materials that could be obtained by the Allies could be secured only by making definite inquiries of producers, the bureau accomplished little, if anything, as it was deemed ill-advised to excite the market by making inquiries for large quantities of materials that might not be required for a long time and might, in point of fact, never be required at all.

"We certainly want to avoid, wherever possible, the costly mistakes made by the Allied Governments, and it is very plain that if a commissioner were appointed by the Treasury who became the agent for the Allied Governments and did not at the same time do the purchasing for the War and Navy Departments, three bidders would be in the market for materials. The purchasers for the Army and Navy, enjoying the advantage of representing our Government, with the right to force producers to reasonable terms, would secure better terms than the commissioner purchasing for the Allies. This would put the Allies in a disadvantageous and intolerable position, perpetuating the very difficulties we are trying to overcome. Wherever our Government was in the open market it would be brought into competition with the commissioner for the Allies, who, in turn, would have to bid the highest

prices to obtain materials and supplies needed for war purposes which would, in turn, reduce the purchasing power of the credits our Government is extending to the Allies, necessitating heavier drafts upon our Treasury than would otherwise be necessary, and lifting the general level of prices, especially in food products, which, in effect, imposes a direct penalty upon every citizen of the United States. Take wheat, for example. If the general level of wheat prices is raised by competitive bidding in our market by foreign Governments or others, our whole population has to pay the higher price of wheat, and speculators are quick to grasp the situation and lift the prices even higher than the competition of the foreign buying alone would produce. In the final analysis of the situation it seems clear to me that the Allied Governments ought to enjoy the same prices for materials as we are able to obtain for our own Government, and it seems further clear to me that the prices we should insist upon for our own Government should not be so low as to deprive manufacturers and producers of a reasonable profit. It is evident, I am convinced, especially from the standpoint of financing our needs, that we must stimulate production by paying reasonable prices for all that the Government requires. If this policy is adopted then we could insist that the same reasonable prices should be made to the Allied Governments. Once the purchases of our Government and the Allied Governments are put upon the same basis, giving the producers and manufacturers a reasonable profit, there will be general satisfaction, a more eager disposition to cooperate, production will be increased, the level of prices will be kept down, speculation will be restrained, and the demands upon our own people for taxation will be cor-

respondingly reduced, while the number of bonds to be sold to supply credit to the Allied Governments, as well as to take care of our own necessities not provided for by taxation, will be far less than otherwise. Our manufacturers and farmers will never consent to sell to the Allied Governments at the same price as to our own Government, unless our Government shall by force impose like prices for their products, but they will be quite willing to sell to the Allied Governments and to our own Government at the same price if that price offers a reasonable profit. It is perfectly clear to my mind that a single commissioner, or even a small commission, dealing for all—I mean our Government as well as the Allied Governments—will be able to effect an equality of prices for all concerned and with great savings for all if such a plan is adopted.

"The United States Government is now going to be directly concerned in all or practically all of the materials the Allied Governments have been purchasing here. The need, therefore, of coordinating the purchases of these materials for the United States and the Allied Governments is manifest and it would appear that this can only be accomplished by vesting in a single organization the power to make all purchases of such materials.

"The investigations I have made as a result of the applications of the various Allied Governments for loans have disclosed the fact that those Governments will have to expend for supplies and materials in the American market, if the war lasts another year, from four to six billion dollars; probably five billion would be a fair estimate. Our own Government could hardly expend in the same time more than two or three billion dollars. You will, therefore, see that the opera-

tions of the foreign Governments will likely be far greater than our own, and that the effect of such an immense expenditure of money in our markets presents of itself a very serious problem. These vast purchases have got to be thoroughly coordinated and directed in a strong and intelligent manner, or the conditions produced are going to be even more intolerable than those now existing.

"The purchases of the Allied Governments have not only extended over a very wide field, but have involved an enormous tonnage. The British Government appears to have regulated its purchases in this country with direct reference to the bottoms that it could reasonably expect to command; other Governments, notably the French and Russian Governments, are reported to have contracted for such large quantities of materials without regard to ship facilities that they are now confronted with the difficult problem as to how they can be moved. It is reported that the French Government have upward of 600,000 tons, the Italian Government upward of 500,000 tons and the Russian Government upward of 1,000,000 tons of material lying in interior warehouses or at the seaboard waiting transportation.

"It appears obvious, therefore, that in any plan looking toward dealing for the Allies in the United States in the future, it is imperative that purchases should be made with reference to the bottoms that can be provided either by the respective Governments or by the United States Government; in other words, the closest kind of coordination must be had between the Puchasing Agency and the board having charge of shipping.

"While I am on the question of ships, I should say

that in addition to the evils of competitive buying between the Army and Navy and Allied Governments, which I have already enlarged upon, an enormous quantity of steel and wood and materials going into the manufacture of marine engines must be purchased by those in charge of the Government's ship-building program. Unless this also is coordinated and put into the hands of the central purchasing agency the confusion will be greatly increased, since much if not all of this ship-building material will be wanted by the Allied Governments for their ship-building and the same material will be wanted for other war uses as well.

"Whatever may be your conclusion the consolidated purchasing agency that I have in my mind is the genuine remedy for the situation. It is in any event essential that I carry out the plan you have already approved for creating a purchasing commissioner, or commission, in this country for the Allied Governments as a condition for the establishment of the credits they need here. That is in process and will be brought about at the earliest possible moment. If the Secretary of War and the Secretary of the Navy would cooperate, you could, by executive order, direct that this commissioner, or commission, should also make all purchases for our own Government. The effect of this arrangement would simply be that when the Army and Navy propose to go into the market for supplies or materials, they would transmit their orders to the purchasing commissioner, or commission, which would place the order, notifying the proper department thereof, which department, in turn, would see to its execution and delivery. There would be no interference with the powers and general administrative

work of the Army and the Navy, except insofar as those departments now place orders for themselves. The plan is an entirely practicable one and would, I am sure, with the cooperation of the War and Navy Departments, be highly successful.

"One other thing should be done immediately, and that is to have the International Commission now sitting in London, and to which I have already referred, given a more distinctively international character than it now possesses and to have representatives of this country sit on that commission. The London International Commission undertakes to determine the needs and priorities of Great Britain, France, Russia and Italy. I understand that there has been considerable dissatisfaction on the part of Russia, France and Italy because Great Britain has had a larger control of this Commission than they think she is entitled to. They would be much better satisfied, I am told, if our Government had representation on this commission, and I am informed that they would all welcome such representation. The British Government is particularly anxious that this shall be done.

"This representation on the London International Commission may not satisfy Russia. I am inclined to think it may be necessary, if Russia continues in the war, to organize a separate commission for Russia, whose headquarters shall be in Petrograd, composed of Russian and American representatives alone, and that this commission should deal solely with Russian needs. It is difficult for Russia to get before the International Commission in London a true picture of her necessities. Her problems are very different from those of her allies, and if America should undertake to finance Russia to a considerable extent, she would be better

satisfied, I am sure, with a joint commission of Russians and Americans to determine what her needs are than to have them passed upon by a commission in which Great Britain, France and Italy are represented. This, however, is a mere suggestion. For the time being I would not contemplate setting up this new machinery. I have discussed it very fully with Mr. Root and he is going to make it the subject of special inquiry when he gets to Petrograd and advise me fully.

"This seems to me a rather rambling letter, but I hope it contains a concrete suggestion. I shall be very happy to have your view of the matter.

"Cordially yours,

(Signed) "W. G. McADOO.

"The President,

"The White House."

The question of coordinating the purchasing agencies of the nations at war with Germany grew graver with every day until in July McAdoo set forth the situation in a personal letter. "The problem of financing the Allies' and our own requirements is going to become more and more difficult, and the necessity for a stronger organization all the way through, not only at home but between the Powers themselves, is imperative. Whether we get it or not is a problem. Unless our resources, financial and otherwise, are used intelligently, and wastefulness and improvidence reduced to a minimum, we aren't going to have enough to go around to do this great job. That is my only concern—proper organization and use of the resources under our control. I am doing all I can with the Treasury, which, of course, must bear the brunt of everything, because the shock and effect of everything that is now done,

here and with the Allied Powers in Europe, so far as the war is concerned, must be absorbed in the Treasury. I don't think our friends have any proper conception of the value of money. They must be held down, and yet, at the same time, they must be given all that is required for the work in hand. It is a very difficult job to exercise the right and discriminating judgment between their wants and necessities and to keep them in proper relation to each other—I mean as between the Powers themselves for the object in view."

It was inevitable that in the crisis of international drama human misunderstandings should arise. One of the most unpleasant is told in a letter addressed by McAdoo to the Secretary of State on July 11, 1917, in which it is brought out that the chief British Government officials were proceeding on an assumption, based on alleged promises from Washington, that the United States Government would supply $400,000,000 to take care of an overdraft owed to J. P. Morgan & Company by Great Britain. In that letter McAdoo tartly remarked that neither he nor any one else in the Treasury had promised to pay this overdraft, and called attention to the lack of much important information needed by the American Government in connection with requests by Great Britain for additional money. He again insisted that before any further engagements for the advance of money be made, an understanding be reached to set up a purchasing commission at Washington through which all purchases for the Allied powers in the United States should be made. "Am I to understand that Lord Northcliffe has been designated financial agent for the British Government," he concluded, "and that he will conduct all negotiations? I am really confused by the number of people who under-

take to speak for the British Government. We have every desire to be friendly and obliging. We have given conclusive evidence of this, but in order to avoid future misunderstandings it would be wise to have it understood that nothing shall be considered as agreed to until signed memoranda or documents have been exchanged."

The budget of Great Britain for future loans also failed to meet the Secretary's approval, and it was only at the urgent representation of Lord Northcliffe and of Sir Richard Crawford—McAdoo had already confessed himself confused by the number of plenipotentiaries authorized to speak for England—that he granted a credit of $100,000,000 in July, and advised that more complete information be accorded him before other credits would be established. Almost simultaneously the Secretary of War wrote him of the needs of the Russian Government for locomotives and cars. Root, heading the Russian Commission, petitioned a credit of $75,000,000 for payment of the military and naval forces of Russia. To meet these requests McAdoo established a credit in favor of Russia for $100,000,000, and gave assurance that future credits would be established to cover the purchase of needed railway supplies. Always, however, his contention went back to the need of unification through a purchasing commission for all the belligerents against Germany. On the tenth of July he had brought the idea to the point where he could again write the President:

"July 10, 1917.

"Dear Mr. President:

"I enclose memorandum of the proposed arrangement to be entered into, with your approval, under

authority of the Act of Congress approved April 24, 1917, between the Secretary of the Treasury and the foreign Governments to which we are extending credits under said Act, for the appointment of a commission in the United States through which all purchases of such foreign Governments shall be made. Attached to this agreement is the form of letter I purpose writing to each of the Governments concerned, providing for the prompt creation of an Inter-Allied Council, to sit in London or Paris, for the purpose of determining their respective needs and priorities in the markets of the United States, and of making recommendations to me as to the amount of loans that shall be made from time to time to them by the United States. You will observe that our Government, under this plan, is permitted to be represented in an advisory way on such council, but does not have voting power thereon, although we reserve the right to modify the agreement in this respect if it should become desirable.

"The representatives here of Great Britain and France have indicated the probable acceptance by their Governments of this arrangement. I am sure that Italy and Russia will follow suit.

"With this machinery set up and operating, a more effective coordination of the operations of the European Governments will be brought about, not only in Europe, but in the United States. The quicker this is accomplished, the better for all concerned, because the confusion now existing is extremely hurtful.

"The purchasing commission, which is to have its headquarters in Washington, should have as members such men, in my opinion, as Mr. Baruch, Mr. Endicott, of Endicott, Johnson & Company, whom you know as one of the most progressive manufacturers of the

country and head of the Endicott, Johnson Shoe Company which established the eight-hour law during the campaign of 1916, and Henry Ford, or some man equally efficient and able. It is very doubtful if Ford would accept such a place, and I have no reason to believe that Endicott would; I mention them as types of men whom I think we should secure for this commission. I thing they would be less likely to come unless the purchases of our Government are passed through this commission, because they would naturally feel that the efficiency of the commission and its ability to get results will depend, as in fact it must depend, upon the power of the commission to control inquiries and direct the purchases for our Government as well as for those foreign Governments in our own market. If two or three purchasing agencies are established, they will inevitably cross each other's wires, keep the markets excited by independent inquiries and negotiation, and by actually competing with each other in the purchases and deliveries of supplies and materials. This ought not to be permitted, and I earnestly hope that you will not sanction any plan which does not put the whole situation under single and firm control.

"My idea has been that if we could agree, in advance of the execution of these European agreements, on the personnel of a suitable purchasing commission, you could name it as the purchasing commission of our own Government, and direct the War, Navy and other purchasing agencies of the United States to proceed through this commission in purchasing supplies and materials for our Government. The same commission could be named in the proposed agreement with the foreign Governments and empowered to act for them in the purchase of supplies in our markets, so that the

effect would be to have the foreign Governments empower a commission of the United States Government to make their purchases in the American market. This would effect a thorough coordination and cooperation.

"The crux of this situation, to my mind, is, first, the power to control or to regulate the prices of the leading raw materials and supplies required for the conduct of the war, and that power I hope the Congress will give you in its broadest possible form; and, secondly, the consolidation of the purchases of the foreign Governments and our Government in our own market so as to keep prices within a reasonable range, and to secure the most efficient and prompt distribution of supplies among the nations concerned. Unless this is accomplished, I do not hesitate to say that it will be impossible for the United States to finance the requirements of this war. Excessive and extortionate prices mean a drain upon the Treasury of the United States and the resources of the American people which it will be impossible to meet. Such prices reduce the purchasing power of the dollar and make it necessary to increase taxation and multiply bond issues. Even if the Congress should fail to give you broad powers to control or regulate prices of essential supplies and materials, the creation of a strong commission in Washington, through which the purchases of all the foreign Governments and our Government must proceed, will tremendously improve the situation. Such a commission can force reductions in prices and exercise a very considerable control over the markets, even though it will be far less effective in this direction than price regulation or control by the Federal Government. If we can establish the commission and get the price regulation powers as well, so much the better.

"The present condition, so far as foreign purchases in our markets are concerned, is confusing and in the highest degree unsatisfactory. We should remedy it as quickly as possible. I shall be greatly obliged, therefore, if you will indicate your approval or disapproval of what I have outlined, or suggest any changes or modifications you may think wise or desirable.

"Copies of the memorandum of arrangement and the proposed letter referred to herein, have been sent to the State Department.

"Cordially yours,
(Signed) "W. G. McADOO.

"The President,
"The White House."

Other forces were at work, however, upon other plans, and less than three weeks later he was confronted by a situation which proved him a good soldier.

The President decided upon the creation of a Purchasing Commission through the Council of National Defense, and McAdoo wrote, "Of course, I accept loyally your decision, and shall do all I can to help, but I must confess that I am genuinely discouraged that such a complicated piece of machinery has been set up."

Again in the autumn he returned to the issue, writing:

"November 15, 1917.

"Dear Mr. President:

"I think the whole weight of the American Government should be thrown firmly and strongly in favor of the creation of the Inter-Allied Conference to consider military operations in Europe and coordinate the resources of the Allied Governments in the conduct of

the war. The Inter-Allied Council I proposed for the determination of the needs and priorities of the various Allied Governments as a basis for credit to be extended to them in the United States does not, of course, go far enough, and was not intended to comprehend the major problem.

"Unless we get a more effective leadership and a more effective use of the combined resources of the principal Allied Governments and of the United States, I am sure that the value of our aid will be very greatly diminished, if not entirely negatived. I believe we are facing the time when America must take the responsibilities of leadership. We alone have the power to impose our decisions upon the Allies, first, because we control the essential resources for the conduct of the war, and secondly, because we have no selfish purpose in view, and, therefore, our decisions will be regarded as impartial. The responsibilities of American leadership are very grave—I realize that fully—but on the other hand, I think the responsibilities of a failure on our part to take that leadership are even graver.

"I respectfully suggest this for your consideration.

"Cordially yours,

(Signed) "W. G. McADOO.

"The President,

"The White House."

With battering persistency he kept at the point, writing on January, 1918, to the President, outlining the Treasury in the allocation of credit to the Allies, and emphasizing the importance of a related study of the expenditures of the War Department and other departments of the Government and the general expenditures of the other belligerents. "Concentration

is the need of the hour," he cabled to Assistant Secretary Crosby in Paris, where the latter was supervising, with what power he could be given, the situation, and advised him against any double-headed commission. He strove, too, to correlate Crosby's work with that of General Bliss, the Chief of Staff, who was just then returning to France. From the beginning to the end of war McAdoo's voice was lifted in a cry against waste.

Out of the urgency of the need the War Finance Corporation, designed to supply essential credits to the war industries of the United States, was established to allay the growing fear that the enormous borrowings of the Government might absorb so large a portion of the available funds of the country that the essential industries might lack financial resources for the adjustment of their production. McAdoo had considered for some time the availability of the measure, but in the early winter held back from pushing it until the President should have decided upon what course he would pursue about the railroads. On December 10, 1917, he wrote the President that he believed the corporation necessary in any case, and in the early part of 1918 presented to Congress a bill which was passed in March. On the organization of the board he sent a cablegram to General Charles G. Dawes, then serving as colonel in the Quartermaster's Department of the American Expeditionary Forces in France, asking him if, with General Pershing's permission, he would take place upon the board. Pershing, however, cabled regret at being unable to spare Dawes from the task in hand. The very announcement of the creation of the board and its purpose did much to relieve the situation, and the loans required for direct service, as

contemplated by the law, were much less than anticipated.

The War Industries Board, reorganized by the President in March, 1918, absorbed the function of purchase for the Allies and cooperation with American purchasing which McAdoo had desired for a central financial agency. The arrangement did not satisfy McAdoo, although he met it loyally, and did his best by liaison service to bring about the result he had projected. It threw upon him, however, added burdens of arrangement with the foreign Powers, and also established a priorities committee to determine questions of transportation and delivery which the President believed a necessity but which the Secretary considered a detriment to the conduct of the railroad administration. Only by closest cooperation with the board on the point was he able, he thought, to minimize the danger from an outside organization handling priorities of transportation.

Even the Russian situation flung its shadows into the Treasury. At the outset of the Revolution Francis, the American Ambassador to Russia, had notified the State Department (November 11, 1917) that he believed the Russian situation unalarming. "Though matters are unsettled here," he had advised Stevens of the Railway Commission, "I believe the Bolshevik Government will not last beyond a few days, and you are to remain in Moscow meanwhile, preferably in your car as that is safest, as no one can help the railroad authorities as you can. After this trouble is over the strength of the prevailing Government will be greater than ever." McAdoo, however, although thousands of miles away from the theater of revolution, and with constitutional sympathy for any people

driven to revolt, was not so temperamentally sanguine of a situation which imperiled repayment of the money loaned to Russia, and had already specified certain conditions concerning Russian credits which saved the United States the money assigned at that time. In January he sent to the President and the Secretary of State these letters:

"January 17, 1918.

"Dear Mr. Secretary:

"I need not, of course, remind you of the difficulties which have arisen in connection with the Russian Revolution nor of the steps which have been taken to meet them. As to these, you have been, directly and through the Counselor of the Department of State, kept fully informed. Credits have been established to the amount of $325,000,000 against which advances, evidenced by demand obligations signed by Mr. Bakhmeteff as Ambassador of the Provisional Russian Government, have been made to the aggregate amount of $187,729,750. A further credit of $125,000,000 was established on November 1, 1917, but to it were attached conditions which, in view of the existing situation, are regarded as making it unavailable and concerning which credits, therefore, no public announcement has been made in this country.

"Heavy commitments have been assumed by the Russian representatives here, as to many of which the Treasury Department had been notified, and as to some of which the Treasury Department had been in direct communication with the American contractors. In close consultation with the Department of State and the Treasury Department the Russian representatives here have made adjustments in respect to these com-

mitments and payments to these contractors out of funds which were on deposit in the National City Bank subject to their draft before the change in the Russian situation early in November.

"With reference to all of these matters, I have to suggest that if and whenever there shall be presented to you the question of recognizing any Government in Russia other than the Provisional Russian Government, with which we have been dealing since the entrance of the United States into the war, the United States should make a condition of its recognition of any such Government the ratification of the indebtedness incurred by the Provisional Russian Government to the United States and of all the terms and conditions thereof, and the ratification of the transactions of the representatives here of the Provisional Russian Government which have been under the supervision or in consultation with the United States as represented by the Department of State and the Treasury Department. If and when the question of any such recognition of another Government in Russia should arise, I should be glad if you would consult me in order that I may make more specific suggestions with reference to such ratifications, so I shall be able to do so on account of my familiarity with the details of these loans and transactions.

"I am, my dear Mr. Secretary,

"Cordially yours,

(Signed) "W. G. McADOO,

"Secretary.

"Hon. Robert Lansing,

"Secretary of State."

"January 17, 1918.

"Dear Mr. President:

"I take the liberty of making a suggestion to the Secretary of State to the effect that we should make it a condition of recognition of any Government in Russia that its obligations to the United States should be respected, and so forth. I enclose copy of that letter, and earnestly hope that it may receive your approval.

"You will observe that it is merely a suggestion, but it is a very important one, in my opinion, for the protection of our people.

"Cordially yours,
(Signed) "W. G. McADOO.

"The President,
"The White House."

At no point, however, did the Secretary of the Treasury meet a more critical situation in the conduct of the war than that which arose in June, 1918, in the finances of France. Just as the American troops went into action, as the country came into full realization of the awful toll of the conflict overseas the finances of France appalled the French ministry and brought to Washington the plea of the Tiger:

TELEGRAM

"Paris, June 9, 1918,
"11 P. M.

"G. Clemenceau, President of the French Cabinet, to the Hon. Wm. G. McAdoo, Secretary of the Treasury, Washington, D. C.

TRANSLATION

"I am calling upon you personally at the most critical time of the war, in order to ask a financial assistance, just as indispensable to victory as the military assistance which your country is giving us so generously.

"France, on account of being the battle-field, is at present in a peculiar financial position.

"Not only has its productive capacity diminished by more than one-third, but, furthermore, the French currency (practically reduced now to paper money) must suffice not only for the French needs but also for those of the Allies because the allied armies are fighting on her soil and are each day spending more and more money here.

"Millions of allied consumers are in France and our monetary system has to bear the burden.

"Because of this the amounts in francs which the French Treasury has placed at the disposal of the Allied Governments have reached the sum of 460,000,000 for the month of April, of which 310,000,000 were for the American Army, and 940,000,000 for May, of which 750,000,000 were also for the American Army. For the first six days of June, the cessions of francs to the American Army amounted to 220,000,000.

"It is in order to remedy this double situation, financial and monetary, that I appeal to you. I am sure that you will understand me.

"I beg to make the two following requests:

"*First request*: The High Commission is negotiating with you for the purpose of discriminating between on one side the sums which are advanced to us by the American Treasury and which must be repaid after

a period of time, and on the other side, the sums proceeding from the cessions of francs corresponding to the expenses of the American Army in France.

"I have no doubt that, in your high spirit of equity, you would be disposed to grant this request, founded on the spirit of justice and loyalty which has always animated the American nation in her relations with France.

"I request you, according to our previous suggestions and on the conditions which you would deem necessary to adopt, to put at the disposal of the French Treasury, in the form of a current account, the sums equivalent to our cessions to the American Government, it being understood that, for the duration of the war, the actual drawings would only take place under the conditions which have been indicated to you, and on which the French Government is ready to accede, in the largest possible way, to your wishes.

"This current account which would represent and be the recognition of the debt of the United States to France, would give in the future a new strength to our finances.

"*Second request*: This first request is of a general order. I consider it as essential, but it would not permit us by itself to meet the difficulties of the situation.

"Our monetary inflation has become a social and financial peril of the utmost gravity. We have only one means of reducing our circulation and that is to issue a new loan without delay.

"It is indispensable that on the eve of this loan the proportion between our cash on hand and our money in circulation be notably increased.

"Our gold reserve, which, at the beginning of the war, was 4,141,000,000 francs for a circulation of

6,683,000,000 has to-day fallen to 3,450,000,000 actually disposable for a circulation of more than 28,000,000,000, and yet, during this same period, the concentration in the coffers of the Bank of France of the gold savings of the country supplied 2,300,000,000.

"This situation results partly from the fact that, during the period of American neutrality, we sent to the United States, by way of England, 2,820,000,000 francs in gold.

"Appreciating at their full value the many difficulties which weigh upon you, we are not asking you for an actual return nor even a definitive retrocession of this gold. We only ask, under the pressure of necessity, that you help us to find an absolutely indispensable assistance.

"It would be a question of:

"(A) Depositing this amount in gold in a bank of the Federal Reserve System, to the credit of the Bank of France, against an equal previous deduction in our cession account.

"(B) Our agreeing to employ this gold for our purchases in the United States after the war, or, if you prefer, our putting this gold purely and simply at the disposal of the Federal Government, when our monetary circulation will have come down after the war to a level upon which we have to agree.

"What is indispensable to our public opinion at the time when we must float a loan in the conditions in which we find ourselves, is for America to open her arms to us, thus affirming her financial solidarity as she has already affirmed her military solidarity.

"If you should judge that the operation bearing on the totality of our gold shipments to America would be too heavy at the present time, the consignment

under the same conditions of a part of this sum (1,000,000,000 francs) would answer our immediate need and the rest of the operation could be made by instalments.

"Conclusion: I address myself to you in my capacity of Head of the Government; for it is a question of direction of the war. It is important for the security of your troops as well as for that of ours that the credit and the currency of France hold as well as does her Army.

"You wanted, as well as we did, unity of command. We need unity of financial action. The second is as necessary as the first; for it is, I reiterate, because the fighting is taking place on our soil, that we are menaced with a crisis of the fiduciary circulation. I beg you to study, with the President, my appeal and give me an answer at the earliest possible moment. It is not a question of sending out of America a single ounce of gold, but only of sustaining—by an assertion of solidarity, corresponding, at least partially for the present, to the amount of French gold sent to America —the French bank-note, which is the common currency of all the Allied Armies.

"We are facing a terrible situation and you will make a great effort to help us, because our cause is yours. Of course, I am conscious that I am not asking for anything which is not just and which is not of absolute necessity; I appeal to your sense of justice and to your will to vanquish.

(Signed) "CLEMENCEAU."

To which McAdoo made answer:

"The Secretary of the Treasury
"To the President of the French Cabinet:

I

"The situation presented by the message of the President of the French Cabinet dated June 9, 1918, has been given careful study and consideration both as to the needs of the Republic of France and the ability of the United States to meet its own war needs and the calls for financial aid which it has received from the Allied Governments. With the approval of the President of the United States the Secretary of the Treasury places before you his views as follows:

II

"The method in effect of dealing with the amount in dollars receivable by the French Government in reimbursement of the expenses of the United States Army in France was adopted after a number of conferences with the representatives of the French Government, and is embodied in a letter dated March 11, 1918, from the Secretary of the Treasury to Mr. André Tardieu, the French High Commissioner, and confirmed by him by letter dated March 13, 1918. This arrangement was entered into after mature consideration by both sides, and embodied a concession by the Secretary of the Treasury that he was reluctant to make and was received by the representatives of the French Government with expressions of cordial appreciation. The arrangement made is quite similar to that in force between the French and British Governments respecting the expenditures of the British Army in France, between the British and United States Governments

respecting the expenditures of the United States Army in Great Britain, and between the United States and the Italian Governments respecting the expenditures of the United States Army in Italy. Under this arrangement the amounts advanced by the United States to France (but not exceeding the amount of reimbursements for the expenditures of the United States Army in France) may be used not only to pay, when due, the obligations of the French Government payable in the United States, but also for other like cash requirements of the French Government in the United States. After a reconsideration of the matter the Secretary of the Treasury is unable to change his views that the existing arrangement is eminently fair. The United States continues to loan to France for her purchases in this country all the dollars needed and for which no dollar funds are available to France; but the Secretary of the Treasury does not feel that he can sanction advances of dollars to an Allied Government while it has dollar funds available.

III

"Even though gold from France reached the United States by way of England when the United States was at peace with the world to meet payments due in the United States, this would not constitute in the opinion of the Secretary of the Treasury any reason for the return to France of the gold thus used for its purposes.

"Since the United States entered the war the commodities within its territory needed by France have been purchased out of the funds which thereafter, but not before, could legally be supplied by the United States Government, and these requirements of France as well as those of other Allied Governments have been

in part supplied by the United States Government through the shipment or pledging of its gold to neutral countries in a very considerable amount. As an instance, the gold sent from the United States to Spain, approximating $100,000,000 in amount, was doubtless in considerable part required by French purchases in Spain.

IV

"The financial demands upon the United States are now enormous. The raising, equipping and maintaining on the battle-fields the large bodies of troops which have already gone forward and are now in the course of preparation for active service alone means an expenditure of billions of dollars and the gathering of commodities from all parts of the world. The increase in the size of our Navy and the active duty to which it has been assigned represents another large item. The construction of the tonnage so needed for the common cause is a further drain upon our resources. The Treasury has at all times stood ready to supply the funds needed by the Allied Governments to purchase food and other commodities in the United States. The Secretary of the Treasury feels assured that so far as the United States advances are expended for available services and commodities in the United States the United States Government can meet the financial problem which it confronts because the money thus spent flows back to the people of the country just as the francs placed at the disposal of the United States Army in France ultimately return to the people of France. The purchases in neutral countries for the United States Government and its people and for the Allied Governments and their nationals either directly,

through exchange operations, or for materials, purchased in neutral countries by the United States and later sold to Allied Governments in exchange for their obligations present a different problem and one the solution of which is giving the Secretary of the Treasury grave concern. The heavy favorable balance of trade of the United States with the world, after eliminating commodities purchased by the Allied Governments from the United States credits, becomes in effect a heavy balance of trade against the United States. In these circumstances, and in view of the need for the common good of conserving the credit and the resources of the United States, the Secretary of the Treasury is forced to the conclusion that the United States can not prudently part with its gold resources for the purposes set forth in the message of the President of the French Cabinet.

V

"The Secretary of the Treasury most sympathetically notes the apprehensions of the President of the French Cabinet of the gravity of the financial situation due to the increased issue of bank-notes in France, and fully appreciates the serious consequences which might result from a depreciation in the French bank-notes. He feels constrained, however, to call attention to the internal assistance already furnished the Government of France by the United States Government through advances made to finance the purchases outside of France of French nationals, and the purchase of foodstuffs by the French Government sold to its nationals. These transactions necessarily resulted in placing a corresponding amount of francs at the disposal of the French Government. The silver

purchased by the French Government from the United States advances has furnished coin for circulation in France.

"While the assistance which may be furnished by the United States to remedy the existing financial situation in France has not yet received the exhaustive study contemplated by the Secretary of the Treasury, yet, in order to aid the French Government in meeting the conditions presented as an emergency, the Secretary of the Treasury is prepared immediately to establish in favor of the Government of France against its obligations in a corresponding amount, a special credit in dollars to an amount equivalent at the present rate of exchange to one billion francs, to be made available and dealt with in such manner as shall be agreed upon between the Secretary of the Treasury and the representatives of the Republic of France, and the Treasury Department awaits the convenience of the representatives of France to arrange these details.

"In view of the importance of the matter presented, the Secretary of the Treasury has brought it to the attention of the British Government, but because of its urgency he is prepared to establish the special credit above mentioned without awaiting any advice from the British Government as to its willingness to participate therein. In case the British Government shall undertake to provide a portion of the said special credit, or, in case dollar funds shall become available to the French Government in excess of its current cash requirements in the United States, the amount of said special credit is to be diminished by a corresponding amount and any dollar funds so available shall *pro tanto* take the place of such credit under precisely the

same arrangements as those to be fixed in respect thereof.

(Signed) "W. G. McADOO.

"The White House.

"Approved: 3 July, 1918.

(Signed) "WOODROW WILSON."

In the last week of October, 1918, the dawn of peace showed gray above the dark horizon of the trenches. Presaged though it was by false reports, the ending of the war was to come suddenly, even though hope of its coming appeared to the principal officers of the Government before they dared voice public assurance of its possibility. With characteristic forward vision McAdoo jumped from consideration of war problems to consideration of problems of adjustment in peace. In one day, October 26th, he wrote to President Wilson a letter which remains in the light of the events of the years which followed a document of amazing prophecy.

"October 26, 1918.

"Dear Mr. President:

"I have heretofore discussed with you the French financial situation, but I think it of great importance that you should be fully informed concerning it, and I enclose a memorandum which has been prepared for me dealing with the subject. I also enclose a copy of M. Clemenceau's message of last June, and a copy of my reply which was sent with your approval.

"You will recall that when M. Clemenceau's message was under discussion I felt that it was the desire of the French Government through the financial aid then requested of the United States Treasury to obtain

credits in this country to provide for post-war expenditures in connection with the reconstruction of France. I have now been informed by M. de Billy that M. Tardieu is expected to reach here next week and during his short stay in this country desires to discuss with me the provision of credits to aid in the reconstruction of France and the dates to be fixed for the maturity of the French obligations held by the United States Government.

"I feel it to be of great importance that we should be assured of a supply of francs for our Army in France during the war and after hostilities shall have ceased until the return of our troops, and it is clear that no discussion of this subject will be possible without entering on the questions which M. Tardieu desires to take up, even if we should otherwise prefer to postpone consideration of these questions. For reasons which I shall explain it seems essential that the British representatives should also participate in the discussions.

"Unless the francs needed by our Army in France are obtained from the French Government resort would have to be had either to an offering of United States franc obligations or to the foreign exchange market. I should not want to be dependent upon floating a United States loan in France as such a step might seriously injure the credit of the United States. If we should be obliged to purchase on the market the exchange needed to produce the francs we require the dollar would speedily go to a discount as compared with the franc, and our whole foreign exchange situation would be badly disorganized. True, we might demand payment of the French obligations we hold to correct exchange, but such demand probably ought not

to be made and might not be met if made, and our requirements for francs would nevertheless have to be supplied, be the consequences what they might. I am therefore most anxious to secure from the French Government an agreement to continue to supply the francs needed by our Army until their return home, against reimbursement in dollars, to be supplied by the French Government only to the repayment of France's debt to the United States or other purposes specified or approved by the United States Treasury.

"If the French Government does continue to so supply the francs for our Army it is to be anticipated that by the time peace is declared the French Government will become entitled to a large amount of dollars in this country in excess of its war expenditures during the same period, and the amount will have been largely augmented by the time our Army reaches home, unless applied to the repayment of the French obligations held by the United States. These dollars France will be most anxious to use to pay for the commodities which it must purchase without its territory to provide for the reconstruction of the invaded portions of France. France must have foreign credits to meet these expenditures, as for some time after the war it is not likely to have either gold or commodities to meet all its foreign balances, and consequently no doubt will object to applying its accumulated dollars toward the payment of the loans heretofore made to it by the United States Government unless assured of the foreign credits needed for reconstruction purposes. In view of the provisions of the First Liberty Bond Act the United States can hardly refuse to exchange the demand obligations of the French Government acquired under the authority of that Act (about $650,-

000,000 in amount) for long-time obligations, and without the acquiescence of the French Government a demand for the payment immediately after the war of the indebtedness of France to us incurred before our Army participated in force in the battles upon the western front could not be made with very good grace nor would it appeal to our people as fair treatment.

"It is obvious that, to relieve us of the burden of foreign expenditures to support our Army as well as for other and even more urgent reasons, we must make every effort to have our forces returned home as speedily as practicable. How quickly this can be done depends partly on the progress of our shipbuilding before peace is declared, but in part also on whether we can obtain the use of foreign ships. If British ships are used for commercial purposes while our ships are engaged in bringing home our Army, and if British Empire products are sold for cash while ours are to a large extent sold against dollar credits established in exchange for francs supplied to our Army, the inevitable result will be that Great Britain will secure an undue share of the cash markets of the world. It is most necessary that we arrange to secure such use of British or other foreign ships as may be requisite to bring our soldiers home expeditiously, and that Great Britain should share with us in supplying the credits required to defray the cost of the commodities needed for the reconstruction of France. I have no reason to believe that Great Britain will not be willing, in cooperation with the United States, to provide credits for the reconstruction of France, but in view of the loans made by Great Britain to the Allied Governments before we entered the war—its loans to France since the commencement of the war to the

present time being upward of £400,000,000 or, say, $2,000,000,000—a discussion with Great Britain may involve a general discussion as to the war indebtedness incurred by the various Allied Governments to the British Government, and the indebtedness (now amounting to $3,652,000,000) of the British Government to the United States.

"The dimensions of the British problem of bringing home her Army in France and of obtaining the francs needed for its support until the return are so much less formidable than our problem that I merely refer to it.

"I am sending you this letter for your information so that you may be informed of the questions which are about to be brought up for discussion by M. Tardieu upon his arrival next week. No action upon your part is required at this time, unless, indeed, you have some directions to give me concerning the matter.

"Cordially yours,
(Signed) "W. G. McADOO.

"The President,
"The White House."

It was accompanied by a memorandum outlining the financial situation existing between the Government of the United States and France, and which contained these recommendations:

"The financial problem indicated should be made the subject of full discussion between the British, French and United States Governments in the endeavor to formulate principles to govern the settlement of these questions and to arrange a temporary working arrangement which would be subject to readjustment. The final settlement probably can not be determined until the peace conference. Moreover, dealing with the day-to-day financial questions is becoming increasing-

ly difficult as each Government desires to preserve or improve its position in anticipation of the larger questions which inevitably sooner or later must become the subject of discussion and agreement between the three Governments.

"The Treasury should be furnished the most accurate information possible regarding the ordinary expenses of the American Expeditionary Forces in Great Britain and France, and all data available regarding any indeterminate claims which have been made or suggested, and as well full information regarding any arrangements made in respect to the return to America of the American Expeditionary Forces and as to the ultimate disposition of material values established in France. It is clear that in making financial arrangements involving such enormous sums the Treasury will be seriously handicapped if it can not be informed of the dimensions of the problem."

On these questions as in all others bearing upon the financing of America's associates in the war, the Secretary was following the basic policy of lending unstinted aid but at the same time of making sure that the records were kept straight and that no money should be advanced or commitments made until the most pressing need was shown. He realized that under the terrific pressure of the war others were liable to lose their heads, but he made certain at all times that the interests of America were protected; that, as far as he could control the situation, the expenditure of money was properly supervised and controlled, and that the rights of the United States in connection with the foreign war debts should be placed upon such a solid foundation that no doubts would arise in the future.

CHAPTER III

Treasury Tasks

NO one without knowledge of what the Treasury of the United States became in the days of war can have adequate realization of the great part which McAdoo played in the gigantic drama. For four years he had striven to make a tape-bound, custom-hobbled, privately privileged institution into a financial machine for efficiency and democracy. He had no sooner succeeded in that task when the war piled Pelion on Ossa. Under a chief of less administrative ability the Treasury might have disintegrated into chaos beneath the pressure of events. Instead, it functioned like a great motor, supplying the driving power for the war of the rear-line trenches, that struggle of the people at large in support of the armies in the field.

His method of work undoubtedly insured his capacity. He never made a snap decision. Always he seemed to be going, no matter how urgent the immediacy, back to the bases of American standards, then forward to the possibilities of the country's future. The present was his road, not his destination. Always, too, he went over the whole field, never appearing to decide any question merely from the point of view of its presenter, or even from his own personal bias. His long swings around the circle, wearying though they were, and taking him from tasks which seemed vital, kept him in touch with the people of the nation as no other public man of the time was. He met everybody, and listened to all who had anything to tell him. Out of his open-mindedness he was the initiator of various reforms as well as the administrator of established divisions.

One of the most pungent cartoons of him in that period showed a dozen men of similar aspect, each tagged with the name of a particular war activity, trudging up a street, and captioned, "Mr. McAdoo Goes to Work." Of similar half-jocular tribute was the bit of doggerel which Franklin K. Lane discovered in a current weekly and forwarded to its inspiration:

"Poor Mister McAdoo!
Think of the jobs he's hitched up to!—
The Treasury, the Railroad crew,
The Income Tax, and then a few.
Each week they hand him something new
To tax his time and temper, too.
He has to know when loans are due,
What source to get his billions through,
What fund to pass each dollar to,
Which tax is what, and who is who;
What bonds to sell, and what renew,
Which 'trust' to coax, and which to sue.
He stretches out each day to two
To do the things he has to do.
The job would flounder me or you—
But it's a cinch for McAdoo!"

On the fifth of June, 1918, answering the President's letter asking for a statement of the Treasury's war activities, he summarized the Customs Service, with its greatly augmented war tasks; the Bureau of War Risk Insurance, both marine and human; the Bureau of Internal Revenue, tremendously enlarged not only for the raising of taxes but for the enforcement of certain prohibition measures; the Supervising Architect; the Section of Surety Bonds; the Bureau of Engraving and Printing, running without cessation for the printing of all Treasury paper; the United States Public Health Service, the only agency authorized by law

to provide for the care and treatment of sick and disabled seamen of the American Merchant Marine, to regulate quarantine of vessels, to prevent the importation and spreading of epidemics; the Federal Reserve Board; the Federal Farm Loan Board; the War Savings Committee; the Division of Loans and Currency; the Division of Public Moneys; the Secret Service; the Comptroller of the Treasury; the Auditors for the Treasury, Navy, War, State, Interior and other departments; the Comptroller of the Currency; the Director of the Mint; the Treasurer of the United States; the War Finance Corporation; the Capital Issues Committee; the International High Commission, and a score of less important sections and divisions. His success, however, was not in the multiplicity of his tasks but in his grasp of them and in his fearlessness in undertaking new ones which he considered essential to the country's speedy success in winning the war.

Explanation of the deeper currents which carried him through his public life is to be found, strangely enough, in a letter which he sent to his erstwhile political opponent, Elihu Root, congratulating the latter upon his seventy-third birthday, and thanking him for his solicitude and advice about his health, which was already breaking in that time (February, 1918) under the strain.

"What heartens and inspires me most," he wrote, "and gives me really an access of strength is the deep interest which all of these great tasks possess for me. This lightens the load immeasurably, as you have, of course, discovered in your own experience. I am so eager to do these tasks for the good of the country and without desire for political or other kind of reward

—and I know you will believe me when I say this—that I do appreciate the confidence of my fellow-citizens and the help of such distinguished and patriotic men as yourself who are also serving so unselfishly in this great time. If I can only retain a sufficient measure of public confidence to enable me to serve the public interest in the highest degree while I am here, I shall be a very happy man, and I shall want nothing more. How can any man who genuinely loves his country, and especially when he has contributed three sons to the service, feel otherwise?"

CHAPTER IV

The War Risk Insurance Act

IN the early days of the nineteenth century a struggling New York lawyer, doing volunteer service for pension aid for the widows and orphans of Spanish-American War veterans, found in the clumsy, cumbersome system one of the worst features of a Governmental attitude toward war. Out of his sympathy for the sufferers from the method he carried through a score of years deep belief in the inadequacy of the system; and out of that belief on a Monday morning in June, two months after the United States had gone into war with Germany, the Secretary of the Treasury brought into his office the rough draft of a plan for a better, more humane way of dealing with the question of caring for war's sufferers, be they widowed, orphaned, or disabled.

Almost simultaneously the President forwarded to him the letter of one of the largest private insurance companies in the country, making an offer to provide insurance for the men in the service. In answer he set down a suggestion of the policy he had already formulated:

"June 23, 1917.

"Dear Mr. President:

"I have been laid up for a few days and therefore have been unable to answer sooner your letter in reference to the suggestion of the ———— Insurance Company about insurance upon the lives of our soldiers and sailors. I regard this as a most important matter and I think insurance upon the lives of our soldiers, and sailors, if effected upon the right basis, is not alone a

humane and wise provision for the men and their families, but that it will contribute immensely to the effectiveness of the Army and Navy. Whenever the fighting men are made to feel that if the worst happens to them their families will be provided for, a great load is taken off their minds. The idea appeals to me tremendously and I should like to see it carried out. It never has been done before by any nation, which is all the more reason why this great progressive nation should set the example. It is in line with what we have just done for the officers and seamen of our merchant vessels. Our War Risk Insurance Bureau is now granting insurance upon their lives and providing indemnities for injuries arising out of the war. It does not seem to me, however, wise to let any one insurance company take hold of this matter. Any one company would be glad to do what the ———— Insurance Company offers to do in its letter to you. The advertising value would be tremendous. Again, I think the jealousies of other insurance companies would be aroused and it might be difficult to get their effective cooperation.

"I had in mind a plan which I am going to discuss with you for the enlargement of our present War Risk Insurance Bureau so as to permit insurance on the lives of officers and men of the Army and Navy. This is a big problem, but not too big for us to tackle. I shall not, at the moment, discuss the merits of the proposition. That can, I think, be deferred until we can take the step I now propose, namely, that you permit me to call a conference of the leading life insurance companies to meet me at the Treasury Department in Washington at an early date for a full discussion of the question of insurance upon the lives of

the officers and men of the Army and Navy. If, as a result of that conference a satisfactory plan is not devised for such insurance, then we can consider seriously enlarging the present War Risk Insurance Bureau to perform this service.

"I enclose, for your information, copy of a letter from Mr. William C. Delanoy, Director of the Bureau of War Risk Insurance, bearing upon the matter.

"Cordially yours,

(Signed) "W. G. McADOO.

"The President,

"The White House."

The President heartily approved the plan, and McAdoo, believing that speed was an essential factor so that the men conscripted into service might not leave the country without knowledge that their families would be cared for in case of their deaths, rushed the calling of the conference. A few days thereafter he reported to the President:

"July 3, 1917.

"Dear Mr. President:

"I had a most interesting conference with the representatives of the largest life insurance and accident insurance companies in the United States yesterday afternoon. About sixty-five companies were represented. The session was not only illuminating but clarifying. By practically unanimous vote the representatives of the insurance companies approved the principle of indemnification by the Government of its armed forces in the field. The problem is too big for the insurance companies, and if it were not, the premiums they would have to charge in order to protect themselves absolutely against the risk would be ex-

tremely high if not excessive. The Government would have to pay these premiums. It would be much better, therefore, if the Government were to carry its own risk.

"This is the right solution and the one I have always favored. I believe a thoroughly practical plan can be worked out quickly and that it will receive the overwhelming approval of the country. At the same time, it will tend more to popularize the war, I think, than any single thing that could be done. This consideration is, of course, subordinate to the higher consideration of humanity and justice. Our Government ought to set an example to the world of a just and generous policy toward our soldiers and sailors which will give every man who enters the ranks the assurance, in advance, of protection for his dependents and of compensation for disabilities he may suffer, not as a gratuity but as a part of the consideration for his patriotic service. If this is done, we can eliminate the scandals as well as the inequities and favoritism of our past pension experience, because this can be made a substitute for future pensions and it will, at the same time, prove far more satisfactory to the beneficiaries and far more economical for the Government.

"I can progress with this matter rapidly and I believe it possible to get action at the present session of Congress (and it ought to be had if possible at this session) if I am allowed to go forward unhampered. After I had, with your approval, issued the call for the conference, I learned this matter had been under investigation by the Council of National Defense, which had referred it to the Department of Commerce, and also the Department of Labor had been making an investigation. These investigations have produced in-

formation of value, and I desire to have the cooperation of all of these agencies in the work that must be done. As soon as I learned of the activities to which I referred, I invited the Secretary of War, the Secretary of the Navy, the Secretary of Commerce and the Secretary of Labor to attend the conference or to send representatives. They were all represented at the conference except the Secretary of Labor, who was unable to attend. I also invited Mr. Gompers, who was out of town. I asked, however, Judge Mack to attend, as he is the Chairman of the Subcommittee of the Labor Committee of the Advisory Commission Council of National Defense and he has done some work on this matter. Judge Mack was present.

"I enclose for your information copies of letters exchanged between Mr. Baker and myself. I think there is a cordial desire to cooperate, but I think it is essential that you should say to Mr. Baker that I had taken the matter up with your approval and as a result of your reference to me of a letter from one of the insurance companies, and that you would be glad if all concerned would cooperate with me in setting this work forward. I am sure that such a suggestion will put at rest any tendency, if such exists, on the part of others, to work at cross-purposes or independently in this matter. I can not go forward with satisfaction or success unless I am permitted to have direction of the matter.

"This insurance is a proper function of the War Risk Insurance Bureau; it is, again, a matter of finance; therefore it relates properly to the Treasury, and this is the Department which ought to administer it. I earnestly hope that you will immediately adopt the suggestion I have made, and speak to the Secretary

of War. Otherwise, I am afraid that there may be an unnecessary and unpleasant mix-up, to which I certainly do not wish to become a party. Having gone to the extent I have already gone, with your approval, it will be extremely awkward if there should be any alteration of plan.

"Cordially yours,
(Signed) "W. G. McADOO.

"The President,
"The White House."

At the President's direction McAdoo made a careful study of the question of compensation, indemnity and insurance for the officers and enlisted men of the military and naval forces. In the Treasury he had the assistance of Dr. Leo S. Rowe, the Assistant Secretary, of William C. Delanoy, director of the War Risk Insurance Bureau, and Hendon Chubb, chairman of the advisory board of that bureau. The Committee on Labor of the Advisory Commission of the Council of National Defense sent Samuel Gompers as their representative, and Judge Julian Mack, who was to draft the bill at McAdoo's direction, was another of the several important members of the committee whom the Secretary summoned for consultation upon the measure.

After Judge Mack had completed a revision of the bill, the Secretary submitted it to the advisory committee of insurance representatives who had been appointed by the insurance conference which he had called on July 2nd. This committee considered the bill, and reported general approval of all of it but the crux, insurance of the men by the Government, opposing the grant of any Government insurance beyond compensa-

tion on the ground that the other provisions were liberal enough. They favored, above and over compensation, the payment by the Government of one thousand dollars in each case of death during service, or within five years of discharge from service to such beneficiary as the man might name.

Their arguments that the plan allowed a wealthier man to obtain something that a poorer man could not fell down before the Secretary's exposition of the premium rates contemplated, and the method to be used whereby the cost of ten thousand dollars insurance to the man in service would be only about eighty dollars a year.

"The bill which I am submitting to you," he wrote the President on July 31, 1917, "is intended to meet those essential and fundamental principles of justice which you have so much at heart. Its main purpose is to grant a reasonable Government indemnity against the losses and risks incurred in the discharge of a patriotic duty and in the performance of an extraordinarily hazardous service to which the Government has called and forced the subject. It provides not only for the man but for his family. . . .

"While in some respects the compensation system gives less than the present pension system," he elaborated, "in other respects, especially in caring for the family after the man's death, it gives more, and, on the whole, aims at a greater equity. . . .

"Through the insurance," he continued, "the opportunity is given to every man to gain greater protection for himself and his family than the Government itself voluntarily gives in case of total disability or death resulting from injuries or diseases contracted in the service. . . .

"We are not relying on the volunteer system in this war," he clarified the issue. "We are drafting men and compelling them to make, if necessary, the supreme sacrifice for their country. A higher obligation, therefore, rests upon the Government to mitigate the horrors of war for the fighting men and their dependents insofar as it is possible to do so through compensation, indemnities and insurance. Less than this a just, generous and humane Government can not do. We must set an example to the world, not alone in the ideals for which we fight, but in the treatment we accord to those who fight and sacrifice for us.

"The proposed provisions for the men and their dependents should not be offered as gratuities or pensions, and they should not be deferred until the end of the war. The wives and children, the dependent mothers and fathers of the men, should not be left, as in previous wars, to the uncertain charity of the communities in which they live. The minds of our soldiers and sailors should be put at rest, so far as their loved ones are concerned, by the knowledge of the compensation for the service they are rendering to their country. In like manner, they should know in advance that if they are killed in battle, definite and just provision has been made for their dependents, and that if they are disabled, totally or partially, if they come back armless, legless, sightless, or otherwise permanently injured, definite provision is made for them, and that they are not going to be left to the uncertain chances of future legislation, or to the scandals of the old pension system. Every man should know that the moment he is enlisted in the service of the Government, military or naval, these definite guarantees and assurances are given him, not as charity, but as a part of his deserved compensa-

tion for the extra-hazardous occupation into which his Government has forced him."

The President, expressing entire approval of the measure, stood back of the Secretary in the concealed but bitter battle which arose in Congress over the bill. Again Joshua W. Alexander, chairman of the Committee of the House, having the bill in charge, proved an invincible champion. The measure was finally passed by unanimous vote in both Houses of the Congress and received the President's approval October 6, 1917. But the victory was not gained until a great fight by selfish interests had been made even within the Congressional committees against the plan. Some of the wealthiest insurance companies, not yet seeing that the bill had in it the germ of an educational crusade which would later react to their benefit, sent down their attorneys to insist that the rates at which the Secretary proposed to issue Government policies were ruinous, and much talk of "bankrupting" was heard beneath the Dome. The old guard, who had for years used the pension system for political gain and who saw in a great war opportunity for further political machinery, denounced the measure as destructive. In a letter to the Governor of the New York Federal Reserve Bank McAdoo voiced his opinion of the bill's opponents:

"I am surprised that any selfish interest would raise a word of objection to this humane and just measure," he wrote Strong, thanking him for his assurances of approval. "It can not hurt the insurance companies, but, on the contrary, should help them; but whether it helps or hurts them is of no consequence when men are dying for their country and their families are starving as a consequence. If our men must die to

protect our liberties and the property of the people of the United States, including the life insurance companies, their officers and agents, this bill offers the least we can do for them, and certainly we must not permit their loved ones to suffer from want or neglect."

He had difficulty, however, in making Congress see the need of haste in passage of the bill, and in September wired to the President information that there was talk in the Senate of not acting upon the insurance bill until the December session. Through their combined efforts legislative action was secured, and the machinery of the bureau set in motion less than six months after the beginning of the war.

There were, of course, necessary delays and mistakes in the clerical work of establishing so gigantic a mechanism; but before McAdoo went out of the Treasury it was functioning in a way to warrant the statement that it was the greatest Governmental institution in the world. Even with later administrative abuses, it has remained the monument to humanitarian foresight in the war period; and the book which McAdoo had never finished was written by his deeds.

CHAPTER V

The Railroad Administration

TO a man of McAdoo's experience and sympathies interest in the railroad problem of the United States was inevitable. He had inaugurated an electric street line, he had built the Hudson Tunnels and operated their system. As early as 1910 he had voiced to the Graduate School of Harvard his theories of the obligations to the public of a transportation corporation. His post as Secretary of the Treasury had given him a vantage point of observation upon the trials, tribulations, good and evil of the railroads of the country. In 1916 he had been a battling crusader for the eight-hour law, which averted the impending railway strike of that time. As the United States went deeper into the war he saw how integral a part of the war machine the railroads of the nation were. He saw how miserably they were functioning, how precariously they were financed, how gravely unjust was the treatment they gave their employees, and how loomingly they threatened the victory toward which other agencies strove with heart and soul. More than that, he saw in them the danger point of class antagonism, the immediate combat-ground of capital and labor. Just as the issue of slavery had run like a dark thread through the warp of executive, legislative and judicial records of the American Government for thirty years before the Civil War, so the issue of wage for the worker ran through all forensic and cabinet discussion of the twentieth century. Because the railroads of the country were so vitally part of this, the greater problem, McAdoo's mind revolved about them even in the midst of his titanic tasks of finance; and

before any other executive in power he saw in them the crucial agents of American triumph or American defeat.

The beginning of December, 1917, found the railroads suffering from physical, economic, financial and moral congestion. Even before the United States went into the war Samuel Rea, President of the Pennsylvania Railroad Company, told the Interstate Commerce Commission that "We realize that the condition of the railroads to-day presents a menace to the country, not alone to the owners of the properties, but as affecting the international situation." By December, 1917, the paralysis of transportation had crept to the point where the Allied Governments of Europe took alarm. The harbors of New York, Boston and Philadelphia showed terminals of great systems so congested that essential supplies could not be delivered, and steamships waiting for supplies to Europe could not be loaded. Across the Atlantic France and Great Britain were lifting agonized cries for speed in transportation. While sidetracks were choked, locomotives in bad condition, cars out of repair, and the machinery of transit demoralized, and railroad managers shrugging helplessness, the Allies held the lines in France under black clouds of despair.

From both sides of the ocean flashed to the Secretary of the Treasury, the shock-absorber of the war, demands for action to relieve the situation. The financial condition of many of the railroads was so precarious on account of the general breakdown of transportation that receiverships were impending. Every day piled higher proof that the Government must get back of the railroads, which were through Fairfax Harrison, Chairman of the Railroad War Board, ask-

ing the Committee on Interstate Commerce of the Senate to secure financial aid for them from the Treasury and the Federal Reserve Board and priority of equipment, as well as immediate increases in rates, and the drafting of men for railroad service until needed for military service. On the tenth of December, 1917, the railroads through their representatives refused the terms of the Interstate Commerce Commission—and signed their own warrant.

Already, four days earlier, McAdoo had written to the President a letter which stated, in part:

"For some months I have been studying the railroad problem as an essential part of our financial, credit and war problems. The communication last sent to Congress by the Interstate Commerce Commission has precipitated the issue, and makes it necessary, in my opinion, to deal with it promptly and decisively.

"I came to the conclusion some weeks ago that the only solution compatible with the genuine interests of the great masses of the American people was the prompt assumption by you of the control and operation of the railroads during the period of the war. Your power to do this is ample, and you can exercise it without asking for further legislation. If you exercise it immediately you will have control of the situation and such additional legislation as you may require can easily be secured. If you do not, and the matter of policy is to be determined by the Congress, there will be protracted debates, with an aggravation instead of an improvement in existing conditions both economic and financial.

"What the railroad managers and capitalists of the country seem to want is legislation which will give to a committee of railroad executives power to control

the railroads as a "unit" during the war and to put upon the Treasury the burden of financing the railroads, the character of the improvements and expenditures represented by that financing to be under the control of the railroads themselves. . . . The efficiency of the railroads for the purposes of the war and for the service of the public would not, in my judgment, be measurably increased. The same management and methods growing out of the long established practise of preserving the integrity and business of each system of railroads as an independent unit would predominate and control their policies and their operation, and the advantage of unified control and operation, which is imperatively demanded if the present emergency is to be met, would not be gained. . . . Even then we should not get the benefits of actual control and direction. However well intentioned the railroad managers may be—and I believe they are well intentioned and earnestly patriotic in their desire to serve the country at this time—the inherent defects of the present system make it impossible for private management to accomplish the task. The Government alone can meet the situation. . . .

"Opposed to this is the solution which is in your own hands and which can be brought about by a stroke of the pen. Under your control, the railroads could be operated with great efficiency, with a large reduction in operating costs through the elimination of wasteful expenditures now necessitated by the maintenance of unnecessary competitive conditions and jealously guarded rights and prerogatives of the various systems, which, no matter how praiseworthy their intentions, are unable to subordinate completely their interest to the paramount interests of the public. . . .

"The effect of Government control upon the whole mass of railroad securities, a very large portion of which will be found among the assets of the commercial and savings banks of the United States, would be highly beneficial. It would strengthen every financial institution in this country and enlarge its ability to help finance the Government's necessities in this time. Under Government control, the reserves now kept by the various independent railroad systems could be greatly diminished, and the expenditures of these reserves for necessary betterments and improvements could be enforced under Government direction. The general improvement of railroad credit would enable the railroads, under the ægis of the Government, to finance in large part, if not altogether, their requirements.

"We should also have the power to determine their financial needs, and to say when and how they should be satisfied. This would prevent any needless conflict with the Government's own financial operations, and effect a harmonious cooperation of infinite value to the Treasury Department in carrying forward the great operations in which it must engage during the progress of the war."

By the fourteenth of December the demoralization of the securities markets in New York sped the Secretary into petitioning the President to take action in the railroad matter at the earliest possible moment. "I am told," he stated, "that rumors are in circulation that if the Government takes over the railroads, the rights of bondholders and stockholders will not be protected. Foolish as this is, it is making an impression." He declared himself concerned about the continued declines in the market lest they reach a point where panic

might set in, and the financial operation of the Government be seriously injured.

Authority for the assumption of Government control of the railroads already existed in the following clause in the Army Appropriation Act, approved August 29, 1916: "The President in time of war is empowered through the Secretary of War to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same, to the exclusion, as far as may be necessary, of all other traffic thereon, for the transfer or transportation of troops, war material, and equipment, or for such other purposes connected with the emergency as may be needful or desirable."

In a letter of December 15th he worked out comprehensive plans for absorption of the railroads into the Government as war agencies. By that time he had been convinced that he would have to undertake the Directorship of the Railroad Administration in addition to his already stupendous labors. The alternative to his own acceptance of the place was the appointment of a director who could not be so familiar as was he with the correlations of finance and transportation. On December 26, 1917, President Wilson issued the proclamation announcing the assumption of control of the roads of the nation by the Federal Government, and the appointment of McAdoo as Director-General. On January 1, 1918, the Railroad Administration began.

The conditions under which the roads were taken over and operated are to be found in three documents. In the Presidential proclamation the fundamental principles were laid down upon which all further legislation and negotiations were based. An Act of Con-

gress being required for the appropriation of the necessary funds to make nationalization effective and to guarantee the compensation to the carriers for the use of their property, the Federal Control Act was passed on March 1, 1918. Finally a contract in the nature of a lease was drawn up between the Government and every railroad corporation, applying in detail the principles laid down in proclamation and statutes.

The President's proclamation assumed control of every system of transportation located within the boundaries of the United States, including coastwise and inland water transportation, terminals, shipping, power and private car lines, elevators, warehouses, telegraph and telephone lines, but excepting street electric passenger road railways and interurbans. Rights of stockholders and creditors were thereby preserved, dividends and interest were to be continued until the Director-General ruled otherwise. Statutes and orders of state commissions and the Interstate Commerce Commission were to be in effect so long as the Director-General should determine, but any subsequent orders of the Director-General were to have paramount authority. The right was reserved by the President to release in whole or in part any railroad or other transportation system of which he had taken possession.

In the Federal Control Act the terms of the Presidential proclamation were enacted formally into law, and by this Act the President was authorized to make an agreement with and to guarantee to any carrier as just compensation an annual sum not exceeding the average annual railway operating income for the three years ended June 30, 1917. Any income accruing in excess of the guaranteed amount was to remain the

property of the United States. Every contract was to contain adequate provision for maintenance and depreciation of the property and for necessary reserve, to the end that the property of the carrier might be returned in substantially as good condition as it was at the beginning of its operation by the Railroad Administration, due consideration being given to the amounts expended for maintenance during the three "test" years of 1915-1916-1917.

The broad conception with which the new Director-General of American Railroads had of his problem was embodied in his General Order No. 1, issued on December 29, 1917, which read:

"To all concerned:

"Pursuant to the order of the President of the United States, through the Secretary of War, the undersigned, as Director-General of Railroads, has taken possession and assumed control of certain transportation systems described in the proclamation of the President, of which proclamation and order officers, agents and employees of said transportation systems are to make immediate and careful notice:

"All Employees to Continue

"In addition to the provisions contained therein it is, until further order, directed that—

"1. All officers, agents and employees of such transportation systems may continue in the performance of their present regular duties, reporting to the same officers as heretofore, and on the same terms of employment.

"2. Any officer, agent or employee desiring to retire from his employment shall give the usual and

seasonable notice to the proper officer to the end that there may be no interruption or impairment of the transportation service required for the successful conduct of the war and the needs of general commerce.

"National Needs Paramount

"3. All transportation systems covered by said proclamation and order shall be operated as a national system of transportation, the common and national needs being in all instances held paramount to any actual or supposed corporate advantage. All terminals, ports, locomotives, rolling stock and other transportation facilities are to be fully utilized to carry out this purpose without regard to ownership.

"4. The designation of routes by shippers is to be disregarded when speed and efficiency of transportation service may thus be promoted.

"5. Traffic agreements between carriers must not be permitted to interfere with expeditious movements.

"Through Routings to be Established

"6. Through routes which have not heretofore been established because of short hauling or other causes are to be established and used whenever expedition and efficiency of traffic will thereby be promoted; and if difficulty is experienced in such through routing notice thereof shall, by carriers or shippers or both, be given at once to the Director by wire.

"7. Existing schedules or rates and outstanding orders of the Interstate Commerce Commission are to be observed, but any such schedules or rates or orders as may hereafter be found to conflict with the purposes of said proclamation or with this order shall be

brought immediately by wire to the attention of the Director.

(Signed) "W. G. McADOO,
"Director-General of Railroads."

The outstanding fact about the organization which McAdoo immediately installed was the necessary reliance he placed upon experienced railroad men. His organization included such commanding figures in the railway world as Walker D. Hines, Chairman of the Board of the Santa Fé; Judge Robert S. Lovett, Chairman of the Board of the Union Pacific; A. H. Smith, President of the New York Central; B. F. Bush, President of the Missouri Pacific; Carl Gray, formerly President of the Western Maryland and later of the Union Pacific; R. H. Aishton, formerly President of the Chicago & Northwestern; Hale Holden, President of the Burlington; C. H. Markham, President of the Illinois Central; Edward Chambers, Vice-President in charge of traffic of the Sante Fé; and N. D. Mahar, President of the Norfolk & Western.

He divided the country into regions for operating purposes, over which he placed an experienced railroad executive as director. Federal managers in charge of the more important single railroads or groups of more important lines were as a rule selected from the operating staffs of the railroads over which they were to take charge. The working organizations of the railroads were left unimpaired; the central administration at Washington was split into divisions with a director at the head of each. All of the executives later were required to sever their railroad connections and become government employees. As Frank Haigh Dixon, Professor of Economics at Princeton

University, has said, "Whatever criticism may be passed upon Mr. McAdoo's administration, he must be given credit for his sound judgment in entrusting the operation of the roads to men of the highest standing in the railroad fields and eliminating political influences. Those who have been impatient with Federal operation usually overlook the fact that it was in the hands of the same men who are again active in railroad affairs now that the roads have been returned to their stockholders."

The first question which met McAdoo in the Railroad Administration was the underlying one of all great executive enterprises of the time, the question of wages to the workers. The wages of most railroad employees had practically stood still while the cost of living had increased by leaps and bounds. Long prior to Federal control these employees had been promised improvement of working conditions and increase of wages, but the war had left these promises breakable as pie crust. In the meantime other branches of labor were earning largely increased wages, and the railroad workers were correspondingly despairing of relief as they were indignant at the failure of the roads to meet changing conditions of employment. Upon these workers, one million eight hundred thousand of them, the Government had to depend for such efficiency in service as would break the transportation deadlock and make the railroads live wires of energy leading toward the battle-fronts of Europe. On the same principle which had caused him to project the compensation and insurance measures for the men in the Army and Navy, the belief that justice must be shown the worker before he can do his best work, McAdoo notified all employees that an investigation of wages and working conditions

would be made at once by an impartial commission, and that, as time would be required for such investigation, he would give them assurance that, if he should ultimately decide to increase pay, he would make the decision retroactive so that the delay would not operate to their disadvantage.

The order accomplished its purpose in establishing that esprit de corps which he regarded as fundamental to efficiency. In February, 1918, the Prime Ministers of France, Italy and Great Britain sent a joint cable to the United States, setting forth that the amount of bread cereals sent from the United States in the two preceding months was 900,000 tons less than the amount which had been promised by the Food Administration; that the failure was due to the congestion of railroad transportation in the United States; that the situation could be saved only by the prompt shipment of the necessary cereals; and that, if the American railroads would do their part, the Allied nations would reduce their importations of munitions and devote the cargo space in their ships to food until the critical emergency was passed. The cablegram stated that in the opinion of the Prime Ministers, the dearth of foodstuffs was "the greatest danger threatening the Allied Nations of Europe."

The Ambassadors of France, Italy and Great Britain told McAdoo that the French Army ration had been reduced once and the Italian Army ration twice on account of the food scarcity. With the railroads under Government control, he was able to put into operation a plan which despatched the foodstuffs with such celerity from the West to the Eastern seaports that in five weeks he had to inform the representatives of the three countries that he would be obliged to place an embargo

upon further food shipments if the loaded cars of food at the docks were not relieved by necessary ships. With the hearty cooperation of the railroad employees, however, he was able to move all available foodstuffs and meet the exigencies of the situation.

As if the elements had conspired to give battle to the rear-guard, January and February of 1918 swept over the country with almost unparalleled storms. The severity of the weather caused coal shortages which became public menaces in many of the communities of the nation. New York, in particular, was threatened with coal famine, although thousands of tons of fuel were on the Jersey side, awaiting barge shipment to the city. McAdoo ordered the Pennsylvania Company to open its tunnels for coal cars, and the order was at once obeyed. For New England he issued a peremptory order to place five hundred cars daily at specified coal mines for the purpose of hauling coal. On January 6th he telephoned to Secretary Daniels a request to loan the railroads ten thousand tons stored in the Boston Navy Yard, and thereupon turned them over to the Fuel Administration. The question of coal had been one of his considerations for the public from the beginning of the war, as is witnessed by his letter to the President in the summer before:

"August 22, 1917.

"Dear Governor:

"I am glad to see that you have fixed the price of bituminous coal. I do hope that you intend to fix the price quickly of anthracite, as well. There is no more extortionate trust in this country than the anthracite trust, nor one which grinds the people—the poor people particularly—more by its extortions than this trust.

It is given a monopoly in the great cities by the laws and ordinances which compel the use of smokeless coal, and it takes advantage of that fact to extort the utmost from those who are compelled to use its product. For the great masses of poor people on the Eastern seaboard it is more important to control the price of anthracite than of bituminous. Each is, however, vitally important.

"Affectionately yours,

(Signed) "W. G. McADOO.

"The President,
"The White House."

It took, of course, more than a day for the Railroad Administration to grasp more than the immediate demands of transportation, but by May McAdoo had summarized the situation, and in a letter to the President relative to the cost of coal to the railroads he set it forth with a lucidity and a daring which, if there were no other evidence of his statesmanship, would nevertheless justify claim for him as a preeminent leader of thought for public betterment. That wartime exigencies caused the President's belief that the Fuel Administration should be upheld in the coal ruling for the railroads makes no difference in the ultimate issue. In attitude President Wilson was one with his Secretary of the Treasury and Director of Railroads. As the Chief Executive, however, he had to take in account other phases which determined his decisions. The tremendous demands upon the time of both men and their strict sense of propriety which kept them from permitting their personal relationship to impinge upon their public positions were the fundamental reason for the documents which McAdoo sent to the President,

documents which fortunately present him as no other chronicle could, and which, as in the instance of this letter, set down the continuing issues of the nation.

In the letter he voiced his belief that while the railroads were part of the Government war equipment they must be operated solely in the public interest. He estimated the increase of cost in operating in 1917 at $832,900,000, of which $300,000,000 would be wage increase. Increasing cost of fuel, supplies, and abnormal handling of traffic under war conditions took up all the balance but $75,000,000, which was for the increase of wages made by the railroads themselves in 1917 which would be reflected in operating expenses in 1918.

By General Order No. 27 he had, taking the recommendation of the Railroad Wage Commission which he had appointed with Franklin K. Lane as Chairman, raised the pay of the lowest paid, the $46 a month man, to $67.21, and the pay of the highest, which was $250 a month, not at all. As to the wages paid on daily basis, he increased the 75 cents a day man to $1.62 a day. If a man worked every day, including Sundays, at the old rate of 75 cents a day, he would earn $22.50 a month. McAdoo made it possible for him to earn $45.50 a month. He increased the pay of the $1 a day man to $1.75 a day; the $1.50 a day man to $2.27 a day, and the highest day rate, namely $7.60, was increased only eight per cent. or to $8.25 a day. Many railroad employees are paid on an hourly rate. The lowest rate had been 10 cents an hour. This was increased by the Director-General to 19¾ cents an hour. If a man worked eight hours a day and every day, including Sundays, at the rate of 10 cents an hour he could make $24 a month. Under the new rate he

could make $47.50 a month. The 20-cent an hour man was increased to a rate of 29½ cents an hour; the 40-cent an hour worker to 56 cents an hour; and the highest paid hourly rate, that of $1.20 an hour, was not increased.

Even at the increased rates men found it difficult to meet the mounting cost of living during the war and give their wives and children the educational advantages and other opportunities required by the decent American standard of life. Even then it was found that shipyards and other competitive interests were constantly offering higher wages and making it increasingly hard to assure the required force of efficient men for operation of the railroads for war purposes.

It is a striking fact that the total increase in the wages of railroad employees made in 1918 by McAdoo was approximately $608,000,000. Walker D. Hines, who succeeded him as Director-General on January 11, 1919, further increased wages $394,000,000, making the total of all increases under federal control $1,200,000,000. When, on March 1, 1920, the railroads were restored to private control under the Esch-Cummins Act, which established the United States Labor Board at Chicago and gave it jurisdiction over wages and working conditions, hearings were held and the Labor Board granted a further increase of $620,000,000 in addition to the total increases made during federal control. These later increases, made by Hines and by the roads upon restoration to private control, would seem to give the lie historic to the claims of political opponents of McAdoo to the charge that he "debauched" railroad labor by the high pay he granted during his directorship.

The amount of traffic handled in 1918 was the greatest in the history of railroading up to that time. Increase in the number of employees was inevitable, not only for this reason but also because the eight-hour law had been put into operation to a larger extent than ever before. The operation of this law did not mean that more money was being paid for the same service; it meant only that a larger number of men was required to do the same number of hours' work, but the aggregate cost was precisely the same.

On January 1, 1918, when federal control became effective, the total number of employees was 1,703,748. The average number of employees under federal control in 1918 was 1,820,660, an increase of 116,912 men. Hines, as Director-General, further increased the number of employees until, on March 1, 1920, when the roads were turned back to private control, the total was 1,970,525. Under private control the number was so increased that in August, 1920, the total number of employees was the greatest in railroad history, namely 2,197,824, or 377,164 more than had been employed under McAdoo to run the same railroads in the war year of 1918.

McAdoo and his railroad army took the railroads, the broken-down locomotives and bad-order cars and all other equipment, and made them function so successfully that ample transportation was provided to keep the greatest business in the history of the United States going at the highest point of production and to maintain the lines of communication between the American Expeditionary Forces and the armies of the Allies in France and the American base of supplies.

In addition to the prompt movement of sorely needed supplies for war-stricken Europe the Railroad Admin-

istration established a record in the prompt and safe transportation of soldiers and sailors. From January 1, 1918, to the Armistice on November 11, 1918, there were transported over various governmentally controlled road 6,496,150 soldiers and sailors. The total number of troop trains moved in that period was 12,897. A total of 193,002 cars were used for this movement, constituting an enormous drain upon the passenger equipment of the country, which naturally led to some inconvenience for the traveling public. The maximum number of men moved during any one month was 1,147,013 in July, 1918. Arrangements for moving this enormous number of men were worked out in detail between the Railroad Administration and the War Department, and accomplished with a minimum of delay and difficulty, even though the ordinary travel of civilians had to be interrupted at times.

Of the many policies inaugurated for securing economies in service those which realized the largest financial returns were the elimination of unnecessary passenger service, the unification of terminals, elimination of circuitous hauls, the reduction in size and expense of the organizations of individual railroads, and the unification of ticket offices and similar facilities. That the policy of elimination of many passenger trains resulted in inconvenience and discomfort to the traveling public was of course evident, though such inconveniences were insignificant compared with those suffered in England and on the Continent. One of the striking cases of unification of service was the opening of the Pennsylvania Terminal in New York to the use of the Baltimore & Ohio and the Lehigh Valley Railroads. While the actual physical construction of terminals throughout the country for unified use was,

of course, impossible there was opportunity for saving in switching cost and consequently in time consumed in handling. Traffic was routed so as to insure delivery with a minimum of switching, and, when switching was required, the service was confined to as few as possible carriers. In the Chicago terminal as many as nineteen different roads were serving one plant or district solely as the result of competition. Switching was saved and unification effected of inspection and repaid forces there. More economical organization of terminals increased the capacity of the roads using them, for it lessened congestion, facilitated interchange, reduced empty-car mileage, and increased the car supply.

With the operation of the railroads various coastal steamship lines and boat lines on many rivers and canals were placed under federal control. As a result of this authority McAdoo was able to make a practical experiment in the development of inland waterways, a subject which had been close to his heart for years. In April, 1918, the New York Barge Canal section was created, and the leasing and construction of equipment designed primarily to move grain from Buffalo to tidewater was undertaken. In July the Cape Cod Canal was taken over to provide an inside waterway free from submarine danger. Dredging and other maintenance work was undertaken at once, and traffic began moving in volume by autumn. In July, too, the Mississippi and Warrior waterways section was created, and construction of tow-boats and barges authorized. To encourage water traffic joint through-freight rates, both class and commodity, were published, applicable to waterlines on the Mississippi and Warrior Rivers, and to the New Jersey Canal section.

Throughout the wartime operation by McAdoo two distinct objects were made manifest: first, to operate the roads as a unit for the purpose of making the largest possible contribution to the winning of the war; second, to increase efficiency and reduce the cost of railroad operation by the introduction of cooperative methods, which required the setting aside of individual selfish interests of the railroad in favor of the larger interests of the country as a whole. Through argument, entreaty, and other more stringent means he enforced more efficient methods in the operation of trains, the delivery, loading and unloading of cars, and the elimination of wasteful practises born of competitive struggle.

In the Railroad Administration McAdoo had opportunity to put into practise humanitarian dogma as well as efficiency doctrine. The tremendous roar of the war machine, moving on to victory, overwhelmed for a time the sound of some of the bugles of the future which were sounded in its passing. One of these was McAdoo's General Order No. 27, giving equal pay to women for the same work as men, and giving equal pay to negroes for the same service performed. In the sweep of events he could not know the far-reaching results of the order, and yet perhaps the last summary of its value to hundreds of thousands of human beings who never saw him and whom he never saw was the letter written by a woman, who had for years supported her three children by her work in cleaning cars at a great railway terminal. After the enforcement of the order she wrote to the woman who had long given her the aid she needed for supplementing her meager wage: "I'm grateful to you for all you've done. But thanks be to God and McAdoo, we don't need charity any

more." Because of its basis on a principle of equity it was in essence a document as vital to economic equality as the Fifteenth and Nineteenth Amendments are to political.

Believing that the increase in cost of $60,000,000 for coal in 1918 was "merely a gift to the mine owners without any compensating advantages to the public," he declared that he did not believe that there would be strikes or diminution of production if the maximum price were not paid by the Government for railroad coal. Admitting the car shortage, due to insuperable weather conditions and other causes not the fault of the Railroad Administration, he insisted that increase in profits to the mine owner was not a remedy, as "I believe it to be a fact that the greatest cause of discontent among the miners is the fabulous profits the coal operators are making without an equitable participation by the miners in these profits. The greater you make the profits of the coal operators, the greater the incentive to the mine workers to strike in order to get their share." In the long run, either through cost to the Government or through mine strikes the public was the sufferer.

It was for that public, composing within it the labor of the country, that McAdoo spoke throughout his service in the administration. For it he established representation of labor in the management, recognition of the eight-hour day and time-and-a-half for overtime, recognition of the rights of collective bargaining by representatives chosen by the workers, payment to women of the same rate as men for similar employment, and payment to negroes of equal wages for the same service performed, payment of a fair and living wage, just and prompt consideration for injuries re-

ceived, or death incurred in the service, establishment of better working conditions, adoption of safety devices for the protection of employees at work. If, as Michael Pupin holds in his tribute to Faraday, man gains a little of immortality by discovery of an immortal law, the Director-General of Railroads in wartime America may be said to have come into permanent position in the history of the United States by application of the principles of justice. Of McAdoo's attitude toward his obligations no better summary could be made than his own tribute to William S. Carter, Chief of one of the great railroad Brotherhoods:

"He never asked for special favors or privileges for the laboring man. He never sought advantage, but he always stood rock-ribbed for fair play and justice. He had the true conception of democracy. He realized that our institutions were not created for the benefit of labor only, nor for capital only, nor for any one class. He knew that the blessings of democracy could never be preserved to our people unless justice was done to every class, but more particularly to the common men and women who compose the background and fiber of our civilization. He knew that the sinister forces which menace democracy are growing stronger and more powerful because they have come to have more and more influence, and frequently actually to control, in Government: that eternal vigilance and ceaseless effort on the part of the common people is necessary to combat and defeat these evil forces. He always stood four-square for the right and never faltered in his struggle for what he believed the true interests of all the people."

As a war agency the Railroad Administration more than justified its establishment. Its tremendous drive

own preference, the poet of courage, are there lines for her limning. Her father's daughter in sublimity of vision, and steadfastness of faith in genuine democracy, she became her husband's wife in the essential spiritual comradeship of marriage; and to the material care of him which she made her first duty she added the tending of that light of idealism which illuminated his statesmanship.

Out of his American intensity of interest in the future as well as in the present McAdoo achieved a prophetic quality of leadership. His utterances on the Merchant Marine, on the loans to the co-belligerents of the United States, on the Liberty Loans, on Latin America, on the railroads, on currency reform, on problems of labor are more than timely statements of passing questions: they are the foundation for to-morrow's structure, and that is, in the long run, the measure of a statesman's worth to his nation.

In January, 1919, McAdoo left Washington. The President had gone abroad, evangeling his crusade for a lasting peace. Already the streets of the Capital were brightening with the insignia of men home from the battle-fronts of France. Under the softness of an early southern springtime forsythia was blossoming on the Hill. In the Treasury another Secretary made plans for a Victory Loan, the last of the war rallies. Over the land brooded the peace which he had done his part to win. To a country triumphant, vindicated, dedicated, he faced forward, one of its private citizens. Through the years of its trial he had been steward of such wealth as Midas never dreamed, had held such power as Cæsar never knew. All that he bore out of it was the knowledge of his own service and a deepened

sense of those traditions which had impelled him to give it. He could look back across the Plaza to the white mass of the Capitol, luminous in the golden light of noon, and lift his head in pride that he had kept the faith of the fathers of the Republic. He could testify to himself—in the long run the only judge who counts—that he had done his work with vision; and in that lifting of the veil that sometimes comes in review of work done for others he could repeat with the prophet of another land and another time,

"Where there is no vision, the people perish."

THE END

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